Billabong
International
Limited

ABN 17 084 923 946









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www.billabongbiz.com

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ASX ANNOUNCEMENT

ANNUAL GENERAL MEETING AND ANNUAL REPORTS

GOLD COAST, 21 September 2012: The attached following documents will be despatched to shareholders today:

- Chairman's Letter
- Notice of Meeting
- Explanatory Memorandum
- Proxy Form
- Shareholder Review
- Full Financial Report

MARIA MANNING
COMPANY SECRETARY

Billabong International Limited
ABN 17 084 923 946

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Dear Shareholder,

I am pleased to extend an invitation to you to participate in the 2012 Annual General Meeting of Billabong International Limited.

The meeting will commence at 10.00am on Wednesday, 24 October 2012, and will be held at Sofitel Hotel, Sorrento Room, Broadbeach, Queensland.

Enclosed with this invitation is a Notice of Meeting, Explanatory Memorandum and Proxy Form.

These documents, together with Billabong International Limited's 2011-12 Full Financial Report and 2011-12 Shareholder Review, are available on the website www.billabongbiz.com. Only those shareholders who have elected to receive a Full Financial Report or Shareholder Review will receive a copy by post.

If you are attending the meeting, please bring your Proxy Form with you to assist us in the efficient processing of your registration. Registration will commence at 9.00am. If you are unable to attend, you may appoint a proxy to vote for you at the meeting by completing the attached Proxy Form. If you intend to appoint a proxy, please return the completed Proxy Form in accordance with the directions on the form by 10.00am (Queensland time) on Monday, 22 October 2012.

Your Directors look forward to seeing you at this meeting.

Yours sincerely

Ted Kunkel
Chairman

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Billabong International Limited
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NOTICE OF ANNUAL GENERAL MEETING AND EXPLANATORY MEMORANDUM

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NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of shareholders of Billabong International Limited will be held at Sofitel Gold Coast, Sorrento Room, 81 Surf Parade, Broadbeach, Queensland at 10.00 a.m. (Queensland time) on Wednesday, 24 October 2012.

BUSINESS

Financial Report and Directors' and Audit Reports

To receive and consider the Financial Report of the Company for the year ended 30 June 2012 and the related Directors' Report and Audit Report.

Re-election of Directors

To elect or re-elect the following directors:

1. Mr. Gordon Merchant, who retires by rotation in accordance with Articles 6.3 (b) and (c) of the Company's Constitution and, being eligible, offers himself for re-election.
2. Ms. Colette Paull, who retires by rotation in accordance with Articles 6.3 (b) and (c) of the Company's Constitution and, being eligible, offers herself for re-election.
3. Mr. Paul Naude, who retires by rotation in accordance with Articles 6.3 (b) and (c) of the Company's Constitution and, being eligible, offers himself for re-election.
4. Ms. Sally Pitkin, who, having been appointed as a non-executive Director on 28 February 2012, retires in accordance with Article 6.3 (i) of the Company's Constitution and, being eligible, offers herself for re-election.

Each election or re-election will be voted on as a separate ordinary resolution.

Remuneration Report

5. That the Remuneration Report for the year ended 30 June 2012 be adopted.

(Note: the vote on this resolution is advisory and does not bind the Directors or the Company).

Awards to Executive Directors under the Executive Performance Share Plan

6. That, for the purposes of ASX Listing Rule 10.14, approval be given for the award of fully paid ordinary shares, for no consideration, to Ms. Launa Inman up to a maximum value of A$614,000 pursuant to the Billabong International Limited Executive Performance Share Plan for the financial year ending 30 June 2013, on the terms summarised in the Explanatory Memorandum accompanying this Notice of Meeting.
7. That, for the purposes of ASX Listing Rule 10.14, approval be given for the award of fully paid ordinary shares, for no consideration to Mr. Paul Naude up to a maximum value of US$383,769 pursuant to the Billabong International Limited Executive Performance Share Plan for the financial year ending 30 June 2013, on the terms summarised in the Explanatory Memorandum accompanying this Notice of Meeting.

By Order of the Board
Maria Manning
Company Secretary

Voting Exclusion Statement

For all resolutions that are directly or indirectly related to the remuneration of a member of the Key Management Personnel (KMP) of the Company (being Resolutions 5, 6 and 7), the *Corporations Act 2001 (Cth)* (Corporations Act) restricts KMP and their closely related parties from voting in certain circumstances.

Closely related party is defined in the Corporations Act and includes a spouse, dependant and certain other close family members, as well as any companies controlled by the KMP.

The KMP of the Company are those persons having authority and responsibility for planning, directing and controlling the Company's activities either directly or indirectly. It includes all Directors (executive and non executive) and selected members of the management team. The KMP of the Company during the financial year ended 30 June 2012 are listed in note 33 to the consolidated financial statements for the year ended 30 June 2012 contained in the Company's 2011/12 Full Financial Report.

In addition, a voting restriction applies in respect of Resolutions 6 and 7 under the ASX Listing Rules.

Resolution 5 – Remuneration Report

The Corporations Act prohibits any votes being cast on Resolution 5 by or on behalf of:

- a member of the KMP as disclosed in the Remuneration Report; and
- a closely related party of those persons,

unless the vote is cast:

- as proxy for a person entitled to vote in accordance with a direction on the Proxy Form; or
- by the Chairman of the meeting as a proxy for a person entitled to vote in accordance with an express authority to vote undirected proxies as the Chairman sees fit.

Resolutions 6 and 7 – Awards to Executive Directors under the Executive Performance Share Plan

The Company will disregard any votes cast on Resolutions 6 and 7 by any Director of the Company (except those Directors who are ineligible to participate in any employee incentive scheme in relation to the Company) and any of their associates, as well as any votes cast as a proxy on Resolutions 6 and 7 by a member of KMP or a KMP's closely related party, unless the vote is cast:

- as proxy for a person entitled to vote in accordance with a direction on the Proxy Form; or
- by a person chairing the meeting as proxy for a person who is entitled to vote in accordance with a direction on the Proxy Form to vote as the proxy decides.

Proxies

If you are unable to attend the meeting, you are encouraged to appoint a proxy to attend and vote on your behalf. If you wish to appoint a proxy, please complete the enclosed Proxy Form.

Shareholders are notified that:

- a member who is entitled to attend and cast a vote at the meeting may appoint a proxy to attend and vote for the member;
- the appointment may specify the proportion or number of votes that the proxy may exercise;
- a member who is entitled to cast two or more votes at the meeting may appoint two proxies and may specify the proportion or number of votes each proxy is entitled to exercise. If you appoint two proxies and the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes; and
- a proxy may be an individual or a body corporate and need not be a member of the Company. If a shareholder appoints a body corporate as proxy, the body corporate will need to ensure that it appoints an individual as corporate representative and provides satisfactory evidence of that appointment.

You can direct your proxy how to vote by following the instructions on the Proxy Form. Shareholders are encouraged to direct their proxy how to vote on each item of business. If you intend to appoint a member of the KMP (including one of the Directors) other than the Chairman as your proxy, you must ensure that you direct them how to vote on Resolutions 5, 6 and 7, otherwise they may not be able to cast a vote as your proxy on those items.

If the Chairman of the meeting is appointed as your proxy (or is appointed your proxy by default), he can be directed how to vote by ticking the relevant boxes next to each item on the Proxy Form (i.e. 'for', 'against' or 'abstain'). If you do not direct the Chairman how to vote on Resolutions 5, 6 and 7, you will be taken to have expressly authorised the Chairman to vote your proxies as he sees fit.

The Chairman of the meeting intends to vote all available proxies in favour of each item of business.

Any directed proxies that are not voted on a poll at the meeting by a shareholder's appointed proxy will automatically default to the Chairman of the meeting, who is required to vote proxies as directed on a poll.

The Proxy Form must be received by the Company or the Company's share registry, Computershare Investor Services Pty Limited, by 10.00 a.m. (Queensland time) on Monday, 22 October 2012.

The completed form of proxy may be:

- mailed to the Company at PO Box 283, Burleigh Heads, Queensland, 4220;

  Faxed to the Company at +61 7 5589 9654; or

  E-mailed to secretary@billabong.com.au; or
- mailed to the Company's share registry, Computershare Investor Services Pty Limited, at GPO Box 242, Melbourne, Victoria, 3001, Australia; or

  Faxed to Computershare Investor Services Pty Limited on 1800 783 447 or

  +61 3 9473 2555; or
- submitted online to the Company's share registry by visiting the website, www.investorvote.com.au. You will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) and Control Number as shown on your Proxy Form. You will be taken to have signed the Proxy Form if you lodge it in accordance with the instructions on the website; or
- www.intermediaryonline.com (for Intermediary Online Subscribers only (Custodians)).

Further details in respect of the resolutions to be put to the meeting are set out in the accompanying Explanatory Memorandum.

Entitlement to vote

The time for the purposes of determining voting entitlements pursuant to regulation 7.11.37 of the Corporations Regulations will be 7.00 p.m. (Queensland time) on Monday, 22 October 2012.

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EXPLANATORY MEMORANDUM

Financial Report and Directors' and Audit Reports

As required by section 317 of the *Corporations Act 2001 (Cth)*, the financial statements for the financial year ended 30 June 2012 together with the statement and report by the Directors and the report by the auditor will be laid before the meeting.

Shareholders will be provided with a reasonable opportunity to ask questions about, and make comments on, the reports and Billabong's management, business, operations, financial performance and business strategies.

Shareholders will also be given a reasonable opportunity during this item to ask a representative of Billabong's auditors, PricewaterhouseCoopers, questions relevant to the conduct of the audit, the preparation and content of the Auditor's Report, the accounting policies adopted by Billabong in relation to the preparation of the financial statements and the independence of the auditor in relation to the conduct of the audit.

However, there will be no formal resolution put to the meeting in relation to this matter.

Shareholders can access a copy of the 2011/12 Full Financial Report on Billabong's website at www.billabongbiz.com.

Resolution 1 – Election of Director

Mr. Gordon Merchant retires by rotation in accordance with Article 6.3 (b) and (c) of the Company's Constitution. Being eligible, Mr. Merchant offers himself for re-election.

Mr. Merchant founded the Billabong business in 1973 and has been a major stakeholder in the business since its inception. Mr. Merchant has been a Non-Executive Director of the Company since July 2000.

He is currently a member of the Nominations and Human Resource and Remuneration Committees.

Resolution 2 – Election of Director

Ms. Colette Paull retires by rotation in accordance with Article 6.3 (b) and (c) of the Company's Constitution. Being eligible, Ms. Paull offers herself for re-election.

Ms. Paull was one of the earliest employees of the Billabong business and has broadly been involved in its development and global expansion. Ms. Paull has been a Non-Executive Director of the Company since July 2000.

She is currently a member of the Nominations and Human Resource and Remuneration Committees.

Resolution 3 – Election of Director

Mr. Paul Naude retires by rotation in accordance with Article 6.3 (b) and (c) of the Company's Constitution. Being eligible, Mr. Naude offers himself for re-election.

Mr. Naude has been employed by the Company since 1998 and currently holds the position of President Americas. Mr. Naude was responsible for establishing Billabong USA as a wholly-owned activity in North America and has been involved in the surfing industry since 1973 with extensive experience in apparel brand management. He was appointed an Executive Director in November 2002.

Resolution 4 – Election of Director

Ms. Sally Pitkin, having been appointed as a Non-Executive Director on 28 February 2012, retires in accordance with Article 6.3 (i) of the Company's Constitution. Being eligible, Ms. Pitkin offers herself for re-election.

Sally Pitkin is a former corporate partner of a leading Australian law firm and has extensive experience in listed companies, public sector bodies and specialist fields including corporate governance and structural reform. Ms Pitkin is a current non-executive director of retailer Super Retail Group Limited (ASX: SUL) and a Councillor of the Australian Institute of Company Directors (Queensland Council). She is a former director of Aristocrat Leisure Limited and Australian Leisure and Hospitality Group.

She is currently Chairman of the Human Resource and Remuneration Committee and a member of the Audit and Nominations Committees.

Board Recommendation

The Board (in each case, in the absence of the relevant Director) unanimously recommends that shareholders vote in favour of the re-election of Mr. Merchant, Ms. Paull, Mr. Naude and Ms. Pitkin. The Chairman of the Meeting intends to vote undirected proxies in favour of each of Resolutions 1, 2, 3 and 4.

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Resolution 5 – Remuneration Report

Section 250R of the *Corporations Act 2001 (Cth)* requires that the Company's shareholders vote on whether or not the Remuneration Report should be adopted. In accordance with the Corporations Act, this vote is ***advisory only*** and the outcome will not be binding on the Directors or the Company. However, the Directors will have regard to the outcome of the vote and any discussion on this item of business when setting the Company's remuneration policies.

Shareholders should note that under the Corporations Act, if 25% or more of votes that are cast are voted against the adoption of the Remuneration Report at two consecutive annual general meetings, shareholders will be required to vote at the second of these annual general meetings on a resolution (a spill resolution) that another meeting be held within 90 days at which all of the Company's Directors (other than the Managing Director who may, in accordance with the ASX Listing Rules, continue to hold office indefinitely without being re-elected to the office) must be re-elected.

The Remuneration Report is set out on pages 13 to 33 of the Directors' Report in the Company's 2011/12 Full Financial Report.

The Remuneration Report:

- explains the Company's remuneration reward framework for its executives and key management team;
- discusses how the remuneration reward framework aligns reward with achievement of strategic and financial objectives and creation of value for shareholders; and
- sets out the remuneration arrangements in place for each Director and for the Company's executives and key management team.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the meeting.

A voting exclusion statement applies to this item of business, as set out in the Notice of Meeting.

Board Recommendation

The Board unanimously recommends that shareholders vote in favour of Resolution 5. The Chairman of the Meeting intends to vote all available proxies in favour of Resolution 5.

Resolutions 6 and 7 – Awards to Executive Directors under the Executive Performance Share Plan (EPSP)

In accordance with Listing Rule 10.14, the Company is seeking the approval of shareholders for the proposed grant of performance shares under the EPSP to the Managing Director and Chief Executive Officer, Ms. Launa Inman, and the President Americas, Mr. Paul Naude, on the terms and conditions set out below.

Background

The establishment of the Billabong International Limited Executive Performance Share Plan was approved by shareholders at the Company's Annual General Meeting on 22 October 2004.

The EPSP is designed to focus executives on the long-term performance of the Group and also to provide an incentive for executives to achieve above average performance over the longer term in the Company's businesses. Under the EPSP, directors of the Company are able to make an award of fully paid ordinary shares in the Company to selected executives, officers and other eligible employees of the Group.

The fully paid ordinary shares in Billabong granted under the EPSP are 'performance shares' as they will not 'vest' in the participant unless and until specified performance criteria are satisfied.

Grant of performance shares

Prior to vesting, the performance shares remain in the possession of the trustee of the EPSP pursuant to the provisions of the Billabong Executive Performance Share Plan Trust Deeds, during which time the participant is not entitled to deal in their beneficial interest in those shares. Performance shares will not vest in (and, as such, will not be transferred to) the executive until the performance criteria (specified by the Board at the time of the award of the performance shares) have been achieved.

In addition, participants are not entitled to exercise any voting rights or to receive payment of any dividends in respect of those shares until such shares have vested. Participants will only be entitled to receive the dividend amounts or other income derived from the shares (net of any tax paid by the trustee of the EPSP) on any performance shares which ultimately vest. Participants receive such entitlements after the performance shares have vested.

Unless and until the performance shares vest on satisfaction of the performance hurdles, the performance shares will be subject to certain forfeiture conditions. Unless otherwise determined by the Board, performance shares will be forfeited where:

- the participant's employment with the Company or associated company is terminated; or
- the Board determines that the participant has committed any act of fraud or defalcation or gross misconduct in relation to the affairs of the Company or an associated company.

In accordance with shareholder approval provided at the 2010 Annual General Meeting (for the purposes of sections 200B and 200E of the Corporations Act), circumstances in which the Board may exercise its discretion to determine that performance shares will not be forfeited on cessation are where the participant's employment with the Company or associated company is terminated without fault on their part (for instance in the case of death, total or permanent disablement, genuine retirement or redundancy or where the Board determines that in all the circumstances it should exercise its discretion, such as an agreed cessation for an employee whose duties and responsibilities have changed substantially as a result of a restructure). In such circumstances, the Board may, in its discretion, determine that a pro rata portion of performance rights will vest, that vesting will occur in the ordinary course, subject to the satisfaction of the performance hurdles imposed at grant, or that it not exercise its discretion at all.

Calculation of number of performance shares to be granted

The 2012/13 award for:

Ms. Launa Inman will be a number of fully paid ordinary shares equivalent in value to A$614,000; and

Mr. Paul Naude will be a number of fully paid ordinary shares equivalent in value to US$383,769,

representing the long term incentive component of each of their respective remuneration packages.

The number of performance shares to be allocated will be determined by dividing the remuneration value by the allocation price of the shares, which is the volume weighted average price of the shares acquired on-market to satisfy the allocation. The value of Mr. Naude's award will be converted into Australian dollars at the prevailing exchange rate at the time of acquisition.

Participants are not required to pay any amount on allocation or vesting of the performance shares.

Performance hurdles

Two performance hurdles will be imposed in respect of the 2012/13 awards under the EPSP. The Board has determined that the performance hurdles reward participants for contributing to the creation of shareholder wealth, and impose challenging, but achievable, targets for participants. The performance hurdles for these awards of performance shares are:

1. Fifty percent (50%) of each award will be tested against a performance hurdle based on earnings per share (EPS), by comparing Billabong's aggregate EPS over the three (3) financial years ending 30 June 2013 to 30 June 2015 (EPS Performance Period) against the aggregate threshold (minimum) EPS target pool and a stretch EPS target pool.

   The EPS target pools are determined by applying a compound growth percentage to Billabong's EPS in the EPS base year, being the financial year ended 30 June 2012. Net profit after tax for the purposes of the EPS base year calculation excludes significant and exceptional items and includes Nixon trading for the period 1 July 2011 to 16 April 2012 and the Group's 48.5% share of the after tax profit of the Nixon joint venture for the period thereafter to 30 June 2012. Additionally, the dilution impact of the capital raising, announced in June 2012, on an annualised basis is taken into account when calculating the 2011-12 base year EPS, against which the EPSP performance will be judged. For the purpose of clarity, this 2011-12 base year EPS is 5.8 cents. The minimum threshold EPS target pool will be based on compound growth per annum over the three (3) year EPS Performance Period of 15%, with the stretch EPS target pool based on compound growth per annum over the three (3) year EPS Performance Period of 20%.

   Following shareholder feedback received subsequent to the 2011 AGM, these EPS targets were increased from the 2011/12 award which were 6% (threshold) and 10% (stretch) to 15% and 20% respectively for the 2012/13 award. The Board believes such hurdles are appropriate given the current uncertain economic conditions under which the Company operates.

   The following table sets out the percentage of EPS hurdled shares that may vest in relation to the Company's aggregate EPS performance over the three (3) year EPS Performance Period.

Company's Aggregate EPS Performance over the EPS Performance Period	**Percentage of EPS performance hurdled shares available to vest**
Less than the aggregate threshold EPS target pool	Nil
Equal to the aggregate threshold EPS target pool	50%
Greater than the aggregate threshold EPS target pool, up to the aggregate stretch EPS target pool	Between 50% and 100%, increasing on a straight line basis
Equal to or greater than the aggregate stretch EPS target pool	100%

The Board retains discretion to adjust the EPS performance hurdle to ensure that participants are neither penalised nor provided with a windfall benefit arising from matters outside management's control that affect EPS (for example, by excluding one-off non-recurrent items or the impact of significant acquisitions or disposals).

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2. Fifty percent (50%) of each award will be tested against a performance hurdle based on Billabong's Total Shareholder Return (TSR) measured relative to the constituents of the ASX 200, excluding those companies classified within the Financials and Energy sectors and Metals and Mining Industry Group (Comparator Group). The Comparator Group is determined at the beginning of the performance period, 1 July 2012, and the TSR performance of the Company and each company in the Comparator Group is measured over the three year period 1 July 2012 to 30 June 2015 (TSR Performance Period). The Board has discretion to adjust the Comparator Group to take into account events including, but not limited to, takeovers or mergers that might occur during the TSR Performance Period. TSR measures change in the price of shares, plus dividends notionally re-invested, expressed as a percentage of investment.

   The Company's TSR performance over the TSR Performance Period will be ranked against the TSR performance of each company in the Comparator Group over the same period. The following table sets out the percentage of TSR hurdled shares that may vest based on the Company's TSR performance relative to the TSR performance of the companies in the Comparator Group.

Company's TSR ranking relative to the Comparator Group	**Percentage of TSR performance hurdled shares available to vest**
TSR below 50th percentile	Nil
TSR at 50th percentile	50%
TSR between 50th and 75th percentile	Between 50% and 100%, increasing on a straight line basis
TSR at or above 75th percentile	100%

A summary of the key provisions of the rules of the EPSP can be viewed on the Company's website www.billabongbiz.com.

Change of control

The rules of the EPSP contain provisions relating to the treatment of unvested performance shares in the event of a takeover or other change in control (as defined in the rules of the EPSP) of the Company.

The Board has considered the 2012/13 EPSP awards in the context of the recent indicative non-binding and conditional proposals by third parties to acquire the Company. While there is still uncertainty surrounding whether or not any current proposal will proceed, the Board has decided to ensure that executives do not receive a windfall gain from the awards if a change of control occurs in the period up to and including the Company's half year results announcement in February 2013.

The Board has determined that under the 2012/13 awards, if a takeover or change of control occurs in the period up to and including the Company's half year results announcement in February 2013, all 2012/13 EPSP awards will lapse and no performance shares will be allocated.

However, if a takeover or change of control occurs after that time, the ordinary treatment as set out in the rules of the EPSP will apply. Under these rules the Board will have discretion to determine how unvested performance shares will be treated (which may include waiving the conditions applicable to some or all of the award) if a takeover or change of control occurs (and in the event of a 90% change of control, EPSP awards would automatically vest).

Additional information

If shareholder approval is obtained, it is intended that the performance shares will be purchased on market and allocated to the EPSP trust on behalf of Ms. Inman and Mr. Naude in February 2013, but in any event no later than twelve (12) months after the AGM.

The intended timing of the purchase of performance shares has been set in the context of the recent indicative non-binding and conditional proposals by third parties to acquire the Company and is consistent with the treatment of the 2012/13 award if a change of control occurs (see 'Change of control' above).

Ms. Launa Inman and Mr. Paul Naude are the only Directors entitled to participate in the EPSP.

At the 2011 AGM, shareholders approved a grant of 103,168 performance shares to Mr. Naude and a grant of 118,735 performance shares to Mr. O'Neill (the former Chief Executive Officer of the Company). Those performance shares were granted on 1 November 2011 at no cost to either Director, in accordance with the terms approved by shareholders. Ms. Inman commenced employment with the Company in May 2012 and as such has not previously participated in the EPSP.

A voting exclusion applies to each of Resolutions 6 and 7, as set out in the Notice of Meeting.

Board Recommendation

The Board (with Ms. Inman and Mr. Naude abstaining) recommends that shareholders vote in favour of each of Resolutions 6 and 7. The Chairman of the Meeting intends to vote all available proxies in favour of each of Resolutions 6 and 7.

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Billabong International Limited

ABN 17 084 923 946

⊢ 000001 000 BBG
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Lodge your vote:

Online:
www.investorvote.com.au

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

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(custodians) www.intermediaryonline.com

For all enquiries call:
(within Australia) 1300 552 270
(outside Australia) +61 3 9415 4000

Proxy Form

Vote online or view the annual report, 24 hours a day, 7 days a week:
www.investorvote.com.au

- ☑ **Cast your proxy vote**
- ☑ **Access the annual report**
- ☑ **Review and update your securityholding**

Your secure access information is:
Control Number: 999999

SRN/HIN: I9999999999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 10:00 am (Queensland time) Monday 22 October 2012

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. However if you wish to appoint as your proxy a member of the key management personnel of the Company (other than the Chair) or a closely related party of a member of the key management personnel of the Company, you must specify how he or she should vote on Resolutions 5, 6 & 7 by completing the boxes opposite these items of business. If you do not do that, your proxy will not be able to vote on your behalf for those items of business. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.
Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.
Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

GO ONLINE TO VOTE,
or turn over to complete the form ➔

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MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

I 9999999999 I ND

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 ## Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Billabong International Limited hereby appoint

☐ **the Chairman of the Meeting** **OR** _____

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of Billabong International Limited to be held at Sofitel Gold Coast, Sorrento Room, 81 Surf Parade, Broadbeach, Queensland at 10:00 am (Queensland time) on Wednesday, 24 October 2012 and at any adjournment of that meeting.

Chairman authorised to exercise undirected proxies on remuneration related resolutions: Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on Resolutions 5, 6 & 7 (except where I/we have indicated a different voting intention below) even though Resolutions 5, 6 & 7 are connected directly or indirectly with the remuneration of a member of key management personnel of the Company, which includes the Chairman.

Important Note: If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on Resolutions 5, 6 & 7 by marking the appropriate box in step 2 below.

STEP 2 ## Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

ORDINARY BUSINESS

		For	Against	Abstain
Resolution 1	Re-election of Mr. Gordon Merchant	☐	☐	☐
Resolution 2	Re-election of Ms. Colette Paull	☐	☐	☐
Resolution 3	Re-election of Mr. Paul Naude	☐	☐	☐
Resolution 4	Re-election of Ms. Sally Pitkin	☐	☐	☐
Resolution 5	Remuneration Report for the year ended 30 June 2012	☐	☐	☐
Resolution 6	The award of fully paid ordinary shares to Ms. Launa Inman up to a maximum value of A$614,000 pursuant to the Billabong International Limited Executive Performance Share Plan	☐	☐	☐
Resolution 7	The award of fully paid ordinary shares to Mr. Paul Naude up to a maximum value of US$383,769 pursuant to the Billabong International Limited Executive Performance Share Plan	☐	☐	☐

The Chairman of the Meeting intends to vote all available proxies in favour of each item of business.

SIGN ## Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	**Director**	**Director/Company Secretary**

Contact Name _____ **Contact Daytime Telephone** _____ **Date** / /

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BILLABONG INTERNATIONAL LIMITED ABN 17 084 923 946

BILLABONG

SHAREHOLDER REVIEW

2011 - 2012



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CONTENTS

2 CHAIRMAN'S REPORT
4 CEO'S REPORT
6 FINANCIAL OVERVIEW
8 KEY HIGHLIGHTS
10 GOVERNANCE OVERVIEW
12 BOARD OF DIRECTORS
14 SUSTAINABILITY
16 A MESSAGE FROM SURFAID INTERNATIONAL

BRAND MARKETING HIGHLIGHTS
20 BILLABONG
22 ELEMENT
24 TIGERLILY
26 RVCA
28 KUSTOM
30 DAKINE
32 VON ZIPPER
34 XCEL
36 HONOLUA
38 SECTOR9
40 PALMERS
42 RETAIL

44 CORPORATE DIRECTORY
46 GROUP OPERTATING CENTRES

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CHAIRMAN'S REPORT

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The 2011-12 financial year was one of major structural change, both within Billabong International Limited ("Billabong" or "the Group") and in broader retail and consumer markets globally. The breadth of Billabong's international reach, which previously provided a form of hedge against regional economic downturns and one off regional macro events, placed pressure on its operations. Growing personal savings rates, subdued consumer spending and a migration of sales from bricks-and-mortar stores to online operations occurred simultaneously in key locations around the world. These trends tested Billabong's business model, which in recent years has been transforming from a multi-brand, wholesale-focused operation to a multi-brand wholesaler and multi-banner retailer.

Billabong's focus on retail provided it with the opportunity to capture both the wholesale and retail margin as well as improving its route to market given the contraction that was under way in the Group's wholesale account base. While the Board remains firmly of the view that the push into retail is the right medium to long-term strategic play, the global consumer slowdown combined with the time required to reduce inventory, extract synergies and reduce costs in key retail acquisitions weighed heavily on Billabong. The above factors, when combined with the unseasonably slow consumer environment around the important pre-Christmas trading period, led to the announcement of a mid-year profit downgrade and a further operational review of the business. This was in addition to a Strategic Capital Structure Review that was already underway at the time.

In February, Billabong announced the results of a number of initiatives from this Strategic Capital Structure Review. They included the partial sale of its Nixon watch and accessories business in a transaction that valued the business at US$464 million. This was undertaken through the establishment of a joint venture with Trilantic Capital Partners, and saw the Group realise a pre-tax profit on sale of $201 million, receive net proceeds of approximately US$285 million and retain approximately 48.5% ownership in the Nixon business. The proceeds from the partial sale were applied to pay down the Group's debt and to strengthen its balance sheet. Other operational review initiatives included a retail store rationalisation program and a $30 million cost reduction program.

Billabong also appointed Launa Inman as a specialist retail consultant and lawyer Sally Pitkin as a member of the Board of Directors. Ms Pitkin later assumed the role of Chairman of the Human Resource and Remuneration Committee.

Immediately before the announcement of the half year results and the outcome of the Strategic Capital Structure Review, the Group received the first of several indicative, non-binding and conditional proposals from private equity firm TPG Capital to acquire all of the shares in the Group, subject to due diligence and a number of other conditions.

At the time, the Board considered that each of these proposals did not reflect the fundamental value of the Group in the context of a change of control transaction. Ultimately, these discussions with TPG Capital ceased.

In May 2012 the Board announced the departure of its long-time Chief Executive Officer Derek O'Neill.

At the same time, Launa Inman, with her experience in retail, supply chain management, finance, strategic planning and brand marketing, was appointed as Managing Director and Chief Executive Officer. Paul Naude, a fellow Director of Billabong and the long-standing head of the Group's North American business, was also elevated to the expanded role of President of the Group's Americas business. The appointments were made as part of a commitment to a turnaround strategy to stabilise the business, prepare it for future growth and provide a more strategic focus on retail.

Following the appointments, the Group continued to experience a marked slowdown in sales, particularly in its European operations in the wake of deepening sovereign debt issues, and this led to a second downward revision in the Group's forecast profitability. On 21 June 2012, the Group announced a trading update and a 6 for 7 accelerated pro-rata non-renounceable entitlement offer to raise approximately $225 million. The capital raising allowed Billabong to pay down bank debt, thus strengthening its balance sheet and providing operational flexibility. The capital raising also allowed the successful renegotiation of the Group's banking covenants.

On 23 July 2012, the Group received another indicative, non-binding and conditional proposal from TPG Capital to acquire all of the shares in the Group. At this time, TPG Capital had rights over 12.5% of the Group's issued shares by way of conditional sale agreements recently entered into with two of the Group's large institutional shareholders. On 5 September 2012, the Group received a similar proposal from another party. The Board has indicated its willingness to engage with these parties, including granting due diligence which at the time of writing has commenced but there remains no certainty that any change of control will be consummated.

Coinciding with the Group's full year results announcement, Ms Inman unveiled the Group's Transformation Strategy to restore Billabong to higher growth and increased profitability. Ms Inman outlined a set of strategic pillars in order to provide a pathway to unlocking future value.

Over the past 12 years as a listed entity, Billabong has amassed an impressive portfolio of brands and retail assets. The Group has also undertaken extensive work to integrate acquired assets and right-size its business to reflect its trading performance. This work will be continued and accelerated as part of the Transformation Strategy.

At this point, I would also like to acknowledge the work of Derek O'Neill, who started Billabong's European operations and later returned to Australia to take the helm of Billabong's global operations. He served the Group for 20 years and I take this opportunity to publicly acknowledge that and wish him well for the future.

After joining the Board of Directors of Billabong in 2001 and assuming the role of Chairman in January 2005, I have announced plans to retire during the 2012-13 financial year. It has been a privilege to be a part of the development of Billabong's international operations over the past decade and I wish the business, its staff and the wider Billabong community every success in the future. I finally thank fellow Director and Audit Committee Chairman Allan McDonald, who also announced his intention to retire during the 2012-13 financial year. Allan was a member of the Board of Directors at the time of Billabong's public listing on the Australian Securities Exchange in 2000 and his service has been both valued and appreciated. As noted in the Remuneration Report, substantial progress has been made in identifying and engaging with high calibre candidates to facilitate the Board renewal process.

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CEO'S REPORT



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In May 2012 I accepted the job as Managing Director and Chief Executive Officer of Billabong International Limited. Billabong is an iconic Australian company and I have a deep respect for the heritage of the Billabong brand and a great appreciation for its stable of unique brands and retail assets.

While my time at the helm of the business has been short, I have formed the view that this is indeed a business with valuable and enduring assets.

In May Billabong initiated a diagnostic analysis of all aspects of the Group's operations. This showed that while the Group has faced a large number of unfavorable external challenges, it also had some internal challenges around brand investment, retail implementation and supply chain efficiency.

From this process of discovery, the Group developed a Transformation Strategy in order to unlock the inherent value within the business. The strategy was based on data and research, with a particular emphasis on customer data. To effectively execute on the strategy, new skills were introduced into the organisation.

An important part of the Transformation Strategy was understanding the market perception of brand Billabong as part of a plan to define growth opportunities. This involved extensive and revealing research and will help form the basis of future decisions to leverage the value of brand Billabong and other key brands including Element, DaKine and RVCA.

Retail is also a key to the future of the business. An important part of the plan is the adoption of strategies to drive improved performance from the Group's bricks-and-mortar retail operations. Allied to this is the development of a global strategy to expand the Group's award-winning online operations as part of the establishment of a multi-channel retail offering.

The final part of the Transformation Strategy involves the fast-tracked evolution of the supply chain to ensure greater flexibility and speed to market.

To execute on all of this requires commitment throughout the organisation and a key observation since joining the business is the passion of its people. They believe in the business and the brands and, in many instances, they live the life that the brands represent. Their work ethic is commendable and their legacy is impressive. I am particularly impressed by many of the younger people in the organisation who see the business remaining very relevant and indeed growing among younger customers.

Finally, I thank all stakeholders in Billabong for their support and investment in the business. I appreciate the Group has gone through turbulent times but, with the right strategy and a confident outlook, I feel it has an exciting future.

FINANCIAL OVERVIEW

Net Loss After Tax for the year ended 30 June 2012 was $275.6 million, a decrease of 331.4% in reported terms (a decrease of 337.9% in constant currency terms) compared to the prior corresponding period (pcp). This result was impacted by a number of significant and exceptional items, including inventory write downs, doubtful debts, the partial sale of Nixon and other costs and charges associated with certain iniciatives outside the ordinary course of operations. Excluding the after-tax impact of these significant and exceptional items in both years, Adjusted Profit attributable to members of Billabong International Limited for the year ended 30 June 2012 was $33.5 million, a decrease of 74.3% in reported terms (a decrease of 73.6% in constant currency terms) compared to the pcp.

Group sales revenue of $1,550.6 million, excluding third party royalties, represents a 7.9% decrease on the pcp in reported terms (down 5.0% in constant currency terms). At a segment level, in constant currency terms, sales revenue in the Americas decreased 8.1%, Europe decreased 12.6% and Australasia increased 5.0% over the pcp.

Consolidated gross margins excluding the impact of significant and exceptional items were 53.2% (53.8% in the pcp in as reported terms).

Adjusted EBITDA (Earnings Before Interest, Tax, Depreciation, Amortisation and Impairment) of $120.6 million represents a decrease of 40.9% in reported terms (a decrease of 39.4% in constant currency terms) compared to the pcp. The consolidated Adjusted EBITDA margin of 7.8% decreased by 4.3% points compared to that of the pcp of 12.1%.

The lower Adjusted EBITDA was driven, in particular, by factors including:

- In Europe, sovereign debt issues had a significant adverse impact on consumer confidence and demand, especially in southern European territories, leading to:
  - Delays in shipment of summer product at the request of some wholesale customers
  - Weak in-season repeat business for summer product
  - Weaker winter indent and delayed shipment of winter product
  - Soft trading conditions in Company owned retail
- In Australia, consumers continued to be very cautious given the weak global macroeconomic climate which led to:
  - A significant reduction in summer product shipments in the important trading month of June
  - A highly promotional retail environment adversely impacting Company owned retail performance
- In North America, both wholesale and Company owned retail performance in Canada was subdued and below expectations. In addition, an exceptionally warm winter negatively impacted snow related products leading to lower winter repeats and subdued spring / summer indents.

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SEGMENT ANALYSIS

In addition to the specific factors discussed by segment below, Adjusted EBITDA margins have been affected by the allocation of lower global overhead costs compared to the pcp.

AUSTRALASIA

Compared to the pcp in reported terms, sales revenue increased 4.1% to $522.3 million (up from $501.9 million) and Adjusted EBITDA decreased 46.1% to $33.8 million (down from $62.7 million). Adjusted EBITDA margins were lower at 6.5% compared with 12.5% in the pcp, principally reflecting the combined impact of a very weak retail environment in Australia and extremely difficult trading conditions in South Africa offset in part by the abovementioned allocation of lower global overhead costs. Excluding the allocation of global overhead costs, Adjusted EBITDA margins were 9.1% compared with 16.3% in the pcp.

Compared to the pcp in constant currency terms, sales revenue increased 5.0% and Adjusted EBITDA decreased 45.4%.

Sales revenues in the Australasian segment increased over the pcp principally as a result of the inclusion of a full year of trading for the prior year acquisitions of SDS/Jetty Surf and Rush Surf in Australia. However, the performance of the underlying Australian business weighed on the region. Low consumer confidence, record savings levels and unseasonably cold summer weather led to a very weak retail trading environment in Australia, compounded by a shift to online shopping given the strong AUD. These factors impacted wholesale repeat business and also impacted company owned retail performance.

AMERICAS

Compared to the pcp in reported terms, sales revenue decreased 11.1% to $750.3 million (down from $843.7 million in the pcp) and Adjusted EBITDA decreased 29.6% to $59.7 million (down from $84.8 million in the pcp). Adjusted EBITDA margins were lower at 8.0% compared with 10.1% in the pcp, principally reflecting the performance of both wholesale and Company owned retail performance in Canada offset by the abovementioned allocation of lower global overhead costs. Excluding the allocation of global overhead costs, Adjusted EBITDA margins were 10.6% compared with 13.9% in the pcp.

Compared to the pcp in constant currency terms, sales revenue decreased 8.1% and Adjusted EBITDA decreased 29.1%.

EUROPE

Compared to the pcp in reported terms, sales revenue decreased 17.6% to $278.1 million (down from $337.6 million in the pcp) and Adjusted EBITDA decreased 55.6% to $24.2 million (down from $54.5 million in the pcp). Adjusted EBITDA margins of 8.7% were down compared to the pcp of 16.1%, principally reflecting the impact of European sovereign debt issues with shortfalls in wholesale repeat business and higher product input costs offset in part by the abovementioned allocation of lower global overhead costs. Excluding the allocation of global overhead costs, Adjusted EBITDA margins were 11.3% compared with 20.0% in the pcp.

Compared to the pcp in constant currency terms, sales revenue decreased 12.6% and Adjusted EBITDA decreased 52.2%.

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$1,550.6 MILLION IN SALES

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BILLABONG INTERNATIONAL LIMITED - YEAR ENDED 30 JUNE (AS REPORTED, AUD)

	FY 2011-12	FY 2010-11	FY 2009-10	FY 2008-9	FY 2007-8	FY 2006-7
INCOME STATEMENT ($MILLION)						
THIRD PARTY SALES	1,550.6	1,683.3	1,482.3	1,669.1	1,347.6	1,222.9
EBITDA	130.4	191.9	253.3	284.8	292.0	259.1
DEPRECIATION	(43.4)	(40.2)	(35.0)	(37.6)	(27.1)	(21.4)
AMORTISATION	(4.3)	(1.8)	(0.6)	(0.5)	(0.1)	(0.4)
IMPAIRMENT	(343.0)	(0.0)	(0.0)	(9.5)	(0.0)	(0.0)
EBIT	(260.3)	149.9	217.7	237.2	264.8	237.3
NET INTEREST EXPENSE	(27.9)	(23.0)	(14.7)	(31.2)	(19.2)	(15.5)
(LOSS) / PROFIT BEFORE INCOME TAX	(288.2)	126.9	203.0	206.0	245.6	221.8
INCOME TAX BENEFIT / (EXPENSE)	11.5	(8.9)	(57.8)	(53.2)	(69.3)	(54.2)
(LOSS) / PROFIT FOR THE YEAR	(276.7)	118.0	145.2	152.8	176.3	167.6
NON-CONTROLLING INTEREST	1.1	1.1	0.8	0.0	0.1	(0.4)
(LOSS) /PROFIT ATTRIBUTABLE TO MEMBERS OF BILLABONG INTERNATIONAL LIMITED	(275.6)	119.1	146.0	152.8	176.4	167.2
BASIC EARNINGS PER SHARE	(90.8) cents	47.4 cents*	58.3 cents*	69.2 cents*	85.7 cents*	81.2 cents*
DIVIDEND PER SHARE	3.0 cents	29.0 cents	36.0 cents	45.0 cents	55.5 cents	50.5 cents

* EPS has not been adjusted to reflect the increased issued capital following equity issues in the 2011-12 and 2008-09 financial years (where applicable).

GOVERNANCE OVERVIEW

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The Board of Directors is responsible to shareholders for the performance of the Group and believes that high standards of corporate governance underpin the Company's objective of maximising returns to shareholders. The Board is committed to the highest level of governance and endeavours to foster a culture that rewards ethical standards and corporate integrity. To this end, the Group considers it complies with the practices set out in the ASX Corporate Governance Principles and Recommendations guidelines.

Underpinning the guidelines are eight key principles, being:

- Lay solid foundations for management and oversight
- Structure the Board to add value
- Promote ethical and responsible decision making
- Safeguard integrity in financial reporting
- Make timely and balanced disclosure
- Respect the rights of shareholders
- Recognise and manage risk
- Remunerate fairly and responsibly

Greater detail on compliance with each of the principles is available in the Company's 2011-12 Full Financial Report and on the website www.billabongbiz.com.



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BOARD OF DIRECTORS

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TED KUNKEL
(NON-EXECUTIVE CHAIRMAN)

Ted Kunkel was appointed a Non-Executive Director on 19 February 2001 and is Chairman of the Board and Nominations Committee and a member of the Human Resource and Remuneration and Audit Committees. Mr Kunkel was previously the President and Chief Executive Officer of Foster's Group Limited and associated companies. Mr Kunkel has extensive international business experience.

LAUNA INMAN
(EXECUTIVE DIRECTOR FROM 14 MAY 2012)

Launa Inman was appointed as Managing Director and Chief Executive Officer effective 14 May 2012. Ms Inman has 32 years of experience in the retail sector and was the managing director of Target Australia, the country's largest retailer of apparel, from 2005 to 2011. Prior to this she was managing director of Officeworks, Australia's largest stationery and office technology retailer, and has considerable skills and depth of experience in global retail, supply chain management, finance, strategic planning and brand marketing. Ms Inman is also a Director of Commonwealth Bank of Australia.

TONY FROGGATT
(NON-EXECUTIVE DIRECTOR)

Tony Froggatt was appointed Non-Executive Director on 21 February 2008. He is a member of the Nominations, Human Resource and Remuneration and Audit Committees. He was the CEO of Scottish and Newcastle PLC brewing company based in Edinburgh, UK, until he retired on 31 October 2007 to return to Australia. He has extensive marketing and distribution knowledge in Australia, Western and Central Europe and Asia, particularly in the international food and beverages sectors. He is also a Director of Brambles Limited and Coca-Cola Amatil Limited.

GORDON MERCHANT AM
(NON-EXECUTIVE DIRECTOR)

Gordon Merchant founded Billabong's business in 1973 and has been a major stakeholder in the business since its inception. He was appointed Non-Executive Director on 4 July 2000 and is a member of the Nominations and Human Resource and Remuneration Committees. Mr Merchant has extensive experience in promotion, advertising, sponsorship and design within the surfwear apparel industry. Mr Merchant was awarded a Member of the Order of Australia in the 2010 Australia Day Honours List for service to business, particularly the manufacturing sector, as a supporter of medical, youth and marine conservation organisations, and to surf lifesaving. He is also a director of Plantic Technologies Limited.

ALLAN MCDONALD
(NON-EXECUTIVE DIRECTOR)

Allan McDonald was appointed Non-Executive Director of Billabong International Limited on 4 July 2000. He is Chairman of the Audit Committee and a member of the Nominations and Human Resource and Remuneration Committees. Mr McDonald has extensive experience in the investment and commercial banking fields and is presently associated with a number of companies as a consultant and company director. Mr McDonald is a director of Astro Japan Property Group Limited and Astro Japan Property Management Limited (the responsible entity for the Astro Japan Property Trust), which are associated with listed stapled securities of the Astro Japan Property Group. He is also a director and chairman of Brookfield Funds Management Limited, the responsible entity of the Multiplex SITES Trust, and Brookfield Capital Management Limited, the responsible entity of Brookfield Australian Opportunities Fund, Multiplex European Property Fund and Brookfield Prime Property Fund.

PAUL NAUDE
(EXECUTIVE DIRECTOR)

Paul Naude was appointed Executive Director on 14 November 2002. He has been President of Billabong's American operations since 1998 and established Billabong USA as a wholly owned activity in North America. Mr Naude was appointed to the expanded role of President of the Americas on 9 May 2012. He has been involved in the surfing industry since 1973 with extensive experience in apparel brand management.

COLETTE PAULL
(NON-EXECUTIVE DIRECTOR)

Colette Paull was appointed Non-Executive Director on 4 July 2000 and is a member of the Nominations and Human Resource and Remuneration Committees. She was one of the earliest employees of the Billabong business in 1973. Since that time, Ms Paull has been broadly involved in the development of Billabong's business from its initial growth within Australia to its expansion as a global brand. Ms Paull previously held the position of Company Secretary until 1 October 1999. She is also a director of Plantic Technologies Limited.

SALLY PITKIN
(NON-EXECUTIVE DIRECTOR)

Sally Pitkin was appointed Non-Executive Director on 28 February 2012. Ms Pitkin is Chairman of the Human Resource and Remuneration Committee (from 13 April 2012) and a member of the Audit and Nominations Committees. She is a former corporate partner of a leading Australian law firm and has extensive experience in listed companies, public sector bodies and specialist fields including corporate governance and structural reform. Ms Pitkin is a Councillor of the Australian Institute of Company Directors (Queensland Council) and a director of Super Retail Group Limited.

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SUSTAINABILITY



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Sustainability, whether it be social or environmental, is culturally relevant to the business operations and the people within the Billabong Group. True sustainability starts with financial viability, which provides a platform to invest in initiatives to drive positive community outcomes. Over the past decade the Billabong Group has grown significantly and, in the past 12 months and against the backdrop of a challenging economic environment, moves have been made to structurally realign the business to underpin the Group's longer term financial security. Strong foundations will allow the Group to maintain investment into programs such as the implementation of Social Accountability International's SA8000 workplace rights program in the third-party supply chain and global carbon footprinting, the results of which are recorded each year in the community section of the website www.billabongbiz.com. At a philanthropic level, support continues for the international rollout of a global citizenship initiative through the SurfAid International Schools Program (see page 16), while at a workplace level the Group continues to employ recycling programs and water saving technologies. At a more visible consumer level, the RVCA brand continues to support creative and artistic communities through its Artist Network Program, the Sector 9 brand continues to make widespread use of





2x SIMA Environmental Product Award winner.

alternative materials such as bamboo, the Kustom footwear brand developed its more environmentally-conscious Shoe With No Footprint and the Element brand continues to run its environment-focused Elemental Awareness program. In the Billabong brand, initiatives include the ongoing program in which boardshorts are made with recycled plastic bottles. More than 40 million plastic bottles had been used in the program by the close of the 2011-12 financial year. Billabong was presented with a 2011 Leader of Change Award by the United Nations-supported Foundation for Social Change in recognition of its ongoing commitment to social and environmental initiatives.



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A MESSAGE FROM SURFAID INTERNATIONAL

The SurfAid Schools program has been supported by Billabong for the past five years. It uses the humanitarian activities of SurfAid to educate future generations about the values of global citizenship and it also shows the world that 'there is more to surfing' than just riding waves. The program has grown to encompass a global teacher network of more than 2,000 primary and secondary teachers, university lecturers and educational professionals.

The schools website www.surfaidschools.org provides free, high quality teaching programs, quick lessons, videos, photo banks and other teaching resources that have been developed by teachers and other professionals.

SurfAid staff in Australia, New Zealand and the US give direct assistance to teachers through curriculum support, teacher and student workshops, guest speakers and the provision of up-to-date field information.

The program links with national education networks including the Asia Education Foundation, Global Ed (AusAID's education portal), and national and state Geography Teachers Associations. Similar links exist in New Zealand through Asia New Zealand Foundation (Asia:NZ) and regional and national Social Studies Associations. US links include Service-learning organisations such as One OC (Orange County), STEAM in San Diego (Science, Technology, English, Arts and Maths), and Teach for America. Partnerships with these groups are used to develop new resources and extend the program's reach throughout the education sector.

An important component of the program involves working with universities such as Queensland University of Technology (QUT Qld), University of Technology, Sydney and Sydney University. New links are being developed with Griffith University and Macquarie University. Auckland University has featured the Schools Program in its teacher-training program.

The US Schools Program director is currently working with the University of Southern California (USC) and University of California, San Diego, (USCD) to develop SurfAid College Clubs. These will promote our messages of global citizenship and sustainability in California. The US program has strong links with Billabong Surf Camps and this year saw the expansion of the SurfAid program to targeted camps on US East Coast.

This year saw the commencement of a new and exciting direction for the program that will see the program link more directly with education in the Mentawai Islands, off Sumatra, Indonesia. The catalyst for this is the planned construction of a school in the tsunami-devastated village of Masokut, where students have been crammed into a temporary school that SurfAid built after the October 2010 tsunami. SurfAid will partner

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with the Mentawai education department to build a new school, and a Masokut community member has donated the land that is currently being cleared.

The schools program also supports the national and global trend towards improving Asia literacy, which is especially relevant in what is being termed the Asian Century.

SURFAID PROGRAM ACHIEVEMENTS 2011-12

Living in remote isolated areas means that you do not have access to basic services. It means suffering preventable diseases such as malaria, acute respiratory infections and diarrhoea. It means your children are malnourished and not being able to go to a clinic. It means you are last on anybody's list when a natural disaster strikes.

SurfAid believes this is unacceptable. That is why SurfAid operates in remote areas to support vulnerable communities with health promotion, disease prevention and disaster risk reduction. We run our programs in the Mentawai Islands, 150km off Indonesia's West Sumatran coast, Nias Island, 125km off the North Sumatran Coast and two strings of islands near Nias and Mentawai, called the Telo Islands and Banyak Islands.

SurfAid is passionate about empowering communities to help themselves. Hardware is important, but not enough to address health, sanitation and nutrition issues. Behaviour change is needed to stop pregnant women and children from dying.

In the 2011-12 year, SurfAid completed its largest one-year program to date, the Emergency Recovery Project following the Ocotber 2010 tsunami in which over 500 people lost their lives. The Indonesian, Australian and New Zealand governments looked to SurfAid as the best placed organisation to respond to this major humanitarian emergency.

A total of 4,015 families (15,668 beneficiaries) received assistance via the program, spread throughout 63 hamlets, 11 villages and four subdistricts. The Emergency Response and Recovery Program delivered a series of seven different projects across three of the major islands in the Mentawai. The projects were: Community Health, Psychosocial Support, Clean Water, Hygiene Promotion, Mother and Child Health, Emergency Preparedness and Shelter.

The communities were traumatized, and many of our partners had lost family members in the tsunami. There were challenges of logistics and communications. The rainy season seemed to last forever.

This year also saw SurfAid commence a three-year Emergency Preparedness Program in the Mentawai, Telo and Banyak Islands directly impacting 20,000 people. The goal of this program is to increase community awareness and provide the communities living on islands off the western coast of Sumatra with effective strategies to reduce and manage the risk associated with the occurrence of earthquakes and tsunamis in the region, and to increase the rate at which they will be able to recover from any major event.

SurfAid also concluded two agreements with the New Zealand Aid Programme for multi-year health programs focused on mothers and children under five in both Nias and South Pagai Island in the Mentawai. SurfAid has been fundraising for the second stage of its Malaria Free Mentawai Program and is planning parasite testing and new mosquito net distribution in collaboration with the Mentawai Health Department.

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CHILDREN IN MASOKUT ARE CURRENTLY HAVING LESSONS IN A TEMPORARY BUILDING ERECTED BY SURFAID FOR PSYCHOSOCIAL COUNSELING AFTER THE OCTOBER 2010 TSUNAMI WIPED OUT THEIR VILLAGE. SURFAID IS FUNDING A NEW SCHOOL IN CONJUNCTION WITH THE LOCAL MENTAWAI GOVERNMENT.

PHOTO: DUNCAN MACFARLANE

SURFAID SCHOOLS PROGRAM

SURFAID INTERNATIONAL

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BILLABONG

Billabong is the Group's foundation brand and is globally recognised as a heritage surf and youth-inspired action sports brand. Billabong enjoyed strong global exposure through the 2011-12 financial year, with its iconic Billabong Pro Tahiti event achieving widespread global coverage courtesy of a mountainous swell that unloaded on the Teahupoo surf break during the annual competition window. The same swell also provided some of the most celebrated moments in big wave surfing history, with a wave ridden by American Nathan Fletcher winning the Sony Xperia Ride of the Year Award as part of the 2012 Billabong XXL Global Big Wave Awards fuelled by Monster Energy. Billabong's Maya Gabeira, from Brazil, won the Billabong Girls Best Performance division in the XXL awards. Billabong-sponsored riders continue to perform strongly on the Association of Surfing Professionals World Championship Tour (WCT), with Taj Burrow winning the opening event of the 2012 season and being in contention for a world title along with fellow team rider Joel Parkinson. On the women's world tour, Billabong's Courtney Conlogue had her maiden elite-level victory on her way to a career-high fifth place in her second year on the tour. Team rider Alessa Quizon from Hawaii won the Billabong World Junior Championship event at Burleigh Heads in Australia and placed third as a wildcard entrant in the Billabong Pro Brazil WCT event, while teenager Frankie Harrer beat the record for the most victories in a single National Scholastic Surfing Association competition season. In snow, team rider Jamie Anderson won the Best Female Action Sports Athlete title in ESPN's ESPY Awards, capping a great year in which she claimed gold medals in the Winter X Games Aspen and Winter X Games Tignes before going on to win the championship titles on both the Burton Global Open Series and the TTR World Snowboard Tour. Team rider Raphael Derome, from Canada, proved dominant in winning wakeboarding titles across Europe and the US, with his victories including the 'big air', 'park' and overall title at the Red Bull Wake Open invitational which was broadcast live on NBC Sports. At a brand level, Billabong Girls won the Women's Apparel Brand of the Year title in the Surf Industry Manufacturers Association annual awards, while the Billabong's mens division won Environmental Product of the Year for its Recycler Series collection of products. More than 40 million plastic bottles have been recycled into apparel products by Billabong as part of the recycler series. Billabong also won the Men's Marketing Campaign of the Year and Billabong Girls the Ladies Marketing Campaign of the Year at Australia's Surf Retailers Federation annual awards. Billabong Girls' annual Design for Humanity charity event continued to grow in popularity, with the 2012 event taking place before a sellout crowd in Los Angeles and raising funds for The Cultivate Foundation.

www.billabong.com.au
www.billabonggirls.com.au

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element
Live · Learn · Grow
WWW.ELEMENTEDEN.COM

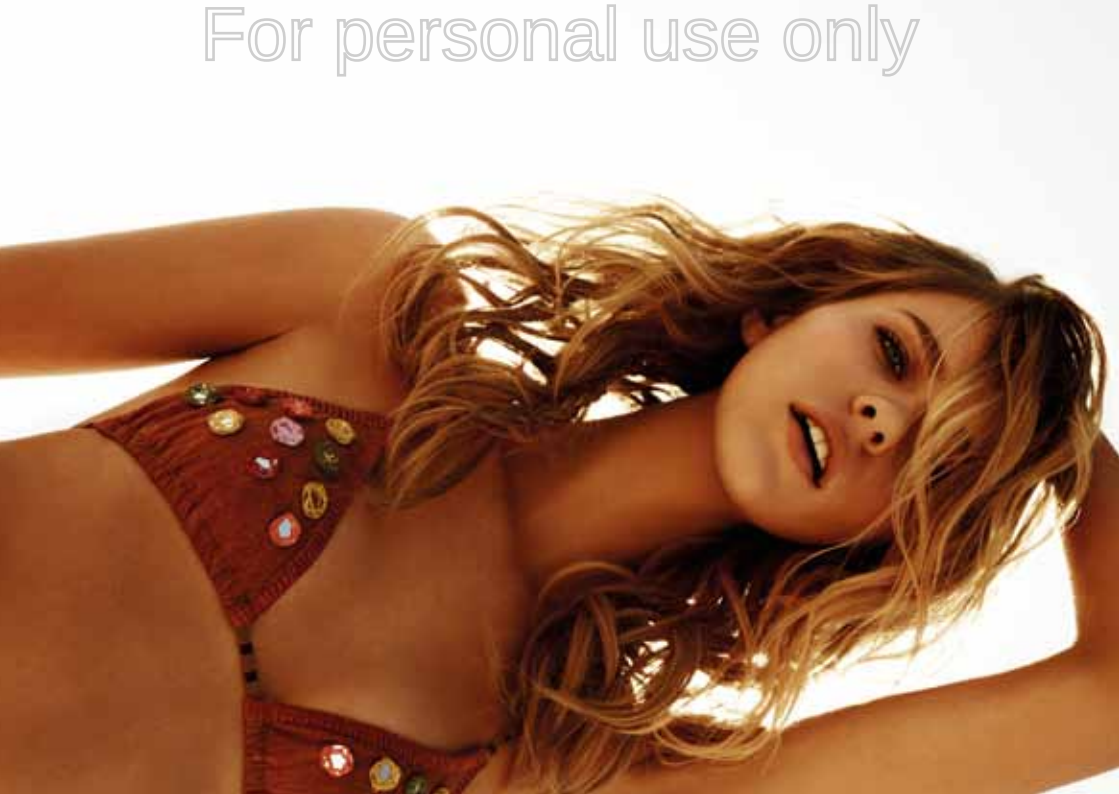
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ELEMENT

Element is a progressive and environmentally conscious lifestyle brand, with skateboarding at its roots, that reaches a diverse group of youth that live a fun-spirited and active life. Celebrating its 20-year anniversary in the 2011-12 financial year, Element was the most decorated brand in skateboarding, with multiple X-Games medals, Dew Tour wins and three Street League wins, including a historic streak of victories by 17-year-old Nyjah Huston. Following this success, Element solidified its place as a leader in boardsport entertainment, releasing 'RISE & SHINE – The Nyjah Huston Video' on iTunes and setting a record for digital downloads on opening day. This was followed with 'FUTURE NATURE - The Element Am Video', which broke all previous records of online traffic, and debuted at #1 on iTunes. The entire Element team set new company exposure records with more than 10 magazine covers and widespread global editorial coverage, resulting in a #1 ranking on industry tracking charts. Reaching out from its core skate roots and responding to consumer demand, Element created the 'Bugs' cruiser-style skateboards, resulting in significant category growth. The 'EDEN Story' was released to educate the retailer and consumer on the brand's women's division and, when showcased, led to stronger brand demand at key accounts. In the men's category, the Element Emerald Collection was created as a premium quality lifestyle line incorporating environment-friendlier materials. Continuing with a commitment to social and environmental awareness, the Element non-profit organisation 'Elemental Awareness' handed out countless boards and shoes to youth in need across the world, resulting in major press coverage. Element further integrated licensed brand Plan B into its business. The Plan B video 'Big Bang Theory' starring Torey Pudwill is among the most successful skate online video parts of all time, with more than three million views. Plan B's founder Danny Way released his life story documentary 'Waiting For Lightning', which concluded with him challenging the limits of skateboarding and setting a new benchmark for big air skateboarding.

www.elementbrand.com
www.elementeden.com
www.planbskateboards.com

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tigerlily

Tigerlily is a premium women's swimwear and apparel brand using unique fabrics and prints and a fusion of fashion and classic themes to create collections that radiate individuality and style. Through the 2011-12 financial year Tigerlily took its annual summer photoshoot to Bali, with the campaign headed by brand creator and ambassador Jodhi Meares and featuring Australian model Elyse Taylor. Tigerlily also launched a new preview swim range and delivered it into store in Australia post the traditional summer swim season. The pre-Easter line was a refresher range designed to provide a new offer to those travelling to warmer climates through the Australian winter. In conjunction with the preview range, Tigerlily unveiled a new range of swimwear fits and shapes to accommodate a broader range of body shapes and expand the reach of the product. These helped build the offer within the brand's signature boutique retail stores in Australia. Sales within the stores grew through the year, as did the brand's online sales through the launch of a Tigerlily online boutique. Tigerlily rounded out its online offering with the unveiling of a new website, together with the launch of Facebook and Instagram pages.

www.tigerlilyswimwear.com.au

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RVCA

RVCA is a brand that embraces the creative pursuits of music, art, fashion and unique lifestyles to create self-expressive product. As the industry's leading progressive lifestyle brand, RVCA is a reflection of modern action sports consumers and the lifestyles they celebrate. Built around RVCA's Artist Network Program (ANP), the brand's philosophy is to unite a unique cast of artists, athletes and advocates supported by a strong underground movement. The key highlight for the brand during the 2011-12 financial year was its recognition as the Men's Brand of the Year in the annual Surf Industry Manufacturers Association annual awards. It was the second consecutive year the award has been won by RVCA. RVCA also continued to show very strong sales growth, both within its home market of the United States and in its emerging international territories. RVCA launched a unique and progressive signature collection with advocate and surfer Alex Knost, who also released his movie, Polyester, and toured with his band, Tomorrows Tulips. RVCA also launched its new boys division supported by advocates Tyler Gunter, Dylan Lee and Kalani David. RVCA skater Josh Harmony released his new album, Benefit of the Doubt, to critical acclaim, while the RVCA ANP program continued to progress through associations with influential artists Sage Vaughn and Kylea Borges. RVCA athlete Makua Rothman added music to his roster of talents, recording an EP due for release in late 2012. Fellow surfer Kalani David won titles in both the ISA World Championships and National Scholastic Surfing Association Juniors Open Division. Additionally, Kalani was invited to the X-Games to showcase his skateboarding talent.

www.rvca.com


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KUSTOM

Kustom is a footwear brand focusing on the casual beach and surf lifestyle market. Through the 2011-12 financial year, the brand achieved good sales growth and performed particularly well in its home market of Australia. The Kustom Kramer shoe performed well, consolidating its position as one of the best retailing styles in the Australian action sports retail market. The brand performance was acknowledged within the industry, with Kustom a finalist in the Footwear Brand of the Year category in the inaugural Australian Surf Industry Awards hosted by the Australian Surf Retailers Association. Kustom's Shoe With No Footprint product line was also a finalist in the Environmental Product of the Year category at the US-based Surf Industry Manufacturers Association annual awards. Kustom's marketing initiatives continued to focus on youth and innovation. Spearheading this was the annual Kustom Airstrike surfing competition which seeks to document the most innovative aerial surfing manoeuvres. The competition, which is open to all-comers through the posting of vision on the Kustom Airstrike online portal, offers a US$50,000 winner-take-all bounty for the year's best aerial move. The initiative is aligned to Kustom's heritage connection to surfing and its ongoing support of leading surfers including Australians Chris 'Chippa' Wilson and Joel Parkinson.

www.kustomfootwear.com



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DaKine is a designer and developer of technical bags and accessories for the surf, skate, snowboard, ski, mountain bike, windsurf and kite disciplines. The brand continued to focus on the development of its international business through the 2011-12 financial year. This was supported through marketing initiatives including the hosting of DaKine's first major international surfing event, the ISA World Juniors Surfing Championship in Panama. The event featured more than 300 competitors from 31 countries and generated extensive media coverage which included 750,000 streams of the live webcast across eight media outlets. Elsewhere in surfing, DaKine signed Brazilian powerhouse Miguel Pupo to its team and continued to support grassroots events including the annual Irons Brother Pine Trees Contest in Hawaii. In skate, DaKine received a strong retail response to a new skate pack product collaboration with industry magazine Thrasher and also sponsored events including the Tampa Pro & Am and the Damn Am Series and played a support role in the global Element "Make it Count" Tour. In the winter market, DaKine launched a technical, high-quality outerwear collection, with the range represented by skiers Chris Benchetler and Todd Ligare and snowboarder Shayne Pospisil. DaKine continued to support key filmmakers in the snow category and various team riders were recognised in the Transworld Snowboarding Riders' Poll, where Eric Jackson won Men's Video Part of the Year and was nominated for Men's Rider of the Year, Xavier De Le Rue won Standout Performance of the Year and was nominated for Online Video Project of the Year and Annie Boulanger was nominated for Women's Video Part of the Year. In the bike category, DaKine continued its grassroots support of bike park and mountain bike trail building initiatives, while its athletes including Matt Hunter, Mike Hopkins and head-to-toe rider Thomas Vanderham had standout video parts in the popular Life Cycles film. DaKine's commitment to kite and windsurfing was underlined through a series of sponsorships of regional, national and international events, while athlete Gisela Pulido was crowned Professional Kiteboard Riders Association World Champion and Philip Koster won the title of Windsurf Wave World Champion. A redesign of the DaKine website saw the introduction of direct-to-consumer purchasing, which resulted in a marked increase in both traffic and online sales.

www.dakine.com



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VonZipper is a fashion forward brand centred around the alternative mindset and with a focus on the eyewear, accessory and premium apparel market. The brand performed strongly in North America and Australasia in the 2011-2012 financial year, with growth in both global sales and market presence in both territories. VonZipper proved a leader in the eyewear market with the release of several new frame styles and collections. The brand launched 10 new frames in the year and achieved good success with its vintage Americana-inspired 'Cletus' and 'Digby' styles as well as women's specific rulers 'Kismet', 'Luna' and 'Ling Ling'. The 'Ether' collection rewrote the sunglass playbook with a group of four new frames that are technical, without losing design creativity and edge. VonZipper's 'Frosteez' collection coloured up cases and put smiles on faces with a stylised blast of summer flavour. Addressing the need for fast fashion frames at an accessible price-point, 'Dot Dash' followed up its ultra-successful brand launch with a collection of new styles that met with strong retail sell through. For fun on the slippery slopes, the 'El Kabong' goggle released at the winter shows, receiving accolades for its frameless design and innovative lens change system. VZ's lifestyle and personality-focused imagery and marketing based around its sponsored athletes and characters continued to differentiate the brand. With a strong motion media campaign and a loyal social networking following, VZ continued to raise the roof of the party and be every event's unofficial sponsor. On the charitable front, VonZipper continued to give back to their community by giving the gift of sight to those in need by providing 3500 eye exams and frames through VZ Optical's one-for-one initiative 'Charity for Clarity'. VZ's collaborations with Sea Shepherd and Boarding For Breast Cancer helped raise awareness and monies for their respective causes through product development and the donation of proceeds from sales. The brand's continued support of the Surfrider Foundation and its membership and representation within the Surf Industry's Manufacturers Association also helped the brand remain actively engaged in social and environmental causes.

www.vonzipper.com

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Celebrating its 30th year in business, Xcel continued to grow its core specialty wetsuit business internationally. Its surf, sporting goods and foreign distribution market segments posted solid sales increases, led by a double-digit increase in Xcel's military business. Key operational goals were achieved in inventory control and management transitions, as the brand welcomed Terry Strumpf as its new president in January 2012. Founder Ed D'Ascoli transitioned out of the president role to focus on the brand's product development and general research and development. Xcel product initiatives continued to push the limits of technology and innovation. In partnership with HECS Stealthscreen, a global concealment textiles manufacturer, Xcel debuted an all-new dive fullsuit series utilizing HECS' proprietary fabrics to enhance the wearer's proximity to marine life. The brand continued its cleaner manufacturing processes and expanded its use of sustainable materials throughout its product lines. Xcel's dedication to sustainability continued to be reflected operationally with ongoing recycling efforts within its solar-powered Oahu, Hawaii, factory and administrative location. Marketing efforts were rededicated to core athletes and regional initiatives. Team rider Albee Layer (Maui, Hawaii) won the prestigious Innersection video competition, netting a US$100,000 grand prize in addition to a feature role in the final Innersection film. The brand's expanded roster of surf, paddle and diving athletes continued to perform well in regional and national competitions. Xcel's partnership with the University of Hawaii Cancer Centre continued to promote skin cancer awareness with a series of youth-oriented initiatives throughout Hawaii. The brand donated over US$15,000 to the Xcel Skin Cancer Prevention Fund in the financial year to underwrite such initiatives. More than US$50,000 has been donated to the fund to date.

www.xcelwetsuits.com

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HONOLUA
SURF CO.

Honolua is a brand that honours the heritage of surfing and celebrates the spirit and legacy of the waterman – those whose lives are inspired by the ocean. The brand continues to grow in line with the heightened global interest in the waterman lifestyle. This is illustrated through the growing participation and competitive growth of stand-up paddleboarding (SUP), a pursuit that owes its heritage to the iconic Hawaiian waterman. Honolua continues to play an active role in the development of the modern-day waterman through sponsorship of key athletes and events. Through the 2011-12 financial year, participation in the Honolua-sponsored Santa Monica Pier Paddleboard Race & Ocean Festival tripled on the prior year attendance, while support for the Downwinder Series events in locations including Malibu and Santa Barbara continues to grow. Among key athletes, Bonga Perkins won the Hawaii leg of the 2012 Stand Up World Tour and Anthony Vela had podium finishes in various SUP events in mainland USA. The newly-signed Dave Boehne also had a strong competitive season which included a podium finish in the prestigious Waterman's Paddle For Humanity event in California and he was one of the stars in the feature documentary H2ind0 which won the Best Action Sports Film at the Newport Beach Film Festival.

www.honoluasurf.com

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Sector 9 is the original longboard skateboard for the surf, skate and snowboarding lifestyles. The brand continued to grow its sales through the 2011-12 financial year, with skate longboarding increasingly viewed as a more inclusive alternative to the shorter high performance boards used in traditional park and street skating. The brand performed well in the markets of the US – where it consolidated its operations into a new, more efficient and environment-friendly facility – and Australia and it continued to build its presence in the European market where it opened a new regional base. Complementing the innovative Sector 9 skateboard offer is an expanded range of safety gear for skateboarding. The range was well received by retailers, as was a newly-released category of smaller skateboards called FUNdamentals. A key area of growth for the brand was in its patented Stealth Slide Technology apparel range, which includes built-in downhill skateboarding gloves concealed in the cuffs of the shirt and jacket sleeves. Sector 9 also re-signed its key athletes, won an industry sales performance award in the US and had a key manager nominated to join the Board of the International Association of Skateboard Companies.

www.sector9.com

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Palmers is a heritage surf wax and accessories brand that has refocused its offer to cater exclusively for active boardsports participants. The brand, established in Australia in 1988 and sold in locations including New Zealand, South Africa, Japan, Europe and Brazil, has maintained its place as a leading supplier to hardware-focused surf retailers. Innovation was a focus through the 2011-12 financial year, with research and testing undertaken on a new wax formula to improve traction. The result is the development of a super-sticky new wax that is planned for release in the 2012-13 financial year. Aside from wax, Palmers also focused on the development of its range of deck grip, surf leashes and board covers. The accessories are each focused on the value end of the market, completing the broader Group's extensive surf hardware offer. The brand achieved good representation from sponsored surfer Heath Joske, whose performance in the Billabong Pro event at Jeffreys Bay drew widespread praise and included a revival of the time-honoured 'soul arch' during a dream heat at the revered break. Joske also spent time away from competition shooting parts for an upcoming film project.

www.palmerssurf.com.au

COMPANY OWNED RETAIL STORES

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The Billabong Group comprises both wholesale and retail operations, with revenue from the two business streams evenly divided. The retail business comprises a mix of multi-branded stores selling product from many of the boardsport sector's leading brands, along with single-branded stores operating under banners including Billabong, Element, Tigerlily and Xcel, outlet stores to support the self-liquidation of end-of-season stock and various shop-in-shop concepts in areas where there is an underdeveloped speciality store distribution channel. The total number of company-owned retail doors peaked at 677 at 31 December 2011, before a store rationalisation program to improve overall retail performance saw the Group close the financial year with 634 stores, which comprises 474 traditional retail stores and 160 low capital-intensive stores such as shop-in-shops and outlets. The store closures were undertaken in locations including Australia, the USA and Europe as part of a rationalisation program that will continue into the 2012-13 financial year and reduce store numbers to less than 600. Separate to the rationalisation program was the implementation of a range of retail integration initiatives, including the merging of acquired warehouses and IT systems into single platforms. This program is continuing into the 2012-13 financial year. The Group also appointed Colin Haggerty as head of global retail operations.

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THE AMERICAS

2010-2011
241
2011-2012
225



EUROPE

2010-2011
118
2011-2012
122



AUSTRALASIA

2010-2011
280
2011-2012
287

TOTAL

2010-2011
639

2011-2012
634

CORPORATE DIRECTORY

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DIRECTORS

Ted Kunkel
NON-EXECUTIVE CHAIRMAN

Launa Inman
CHIEF EXECUTIVE OFFICER

Tony Froggatt
NON-EXECUTIVE DIRECTOR

Allan McDonald
NON-EXECUTIVE DIRECTOR

Gordon Merchant, AM
NON-EXECUTIVE DIRECTOR

Paul Naude
EXECUTIVE DIRECTOR

Colette Paull
NON-EXECUTIVE DIRECTOR

Sally Pitkin
NON-EXECUTIVE DIRECTOR

COMPANY SECRETARY

Maria Manning
B.BUS (ACC), CPA AND FCIS

SENIOR MANAGEMENT

CHIEF EXECUTIVE OFFICER:
Launa Inman

CHIEF FINANCIAL OFFICER:
Craig White

GENERAL MANAGER, AUSTRALASIA:
Shannan North

GENERAL MANAGER, EUROPE:
Franco Fogliato

PRESIDENT, AMERICAS:
Paul Naude

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Facsimile: +61 7 5589 9800

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Corner of Hunter & Phillip Streets
Sydney NSW 2000

CLAYTON UTZ:
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MINTER ELLISON:
159 Varsity Parade Varsity Lakes QLD 4227

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AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED:
20/111 Eagle Street, Brisbane QLD 4000

BANK OF AMERICA MERRILL LYNCH:
Level 38, Governor Phillip Tower
1 Farrer Place Sydney NSW 2000

COMMONWEALTH BANK OF AUSTRALIA:
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NATIONAL AUSTRALIA BANK LIMITED
100 Creek Street Brisbane QLD 4000

SOCIÉTÉ GÉNÉRALE:
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WESTPAC BANKING CORPORATION:
260 Queen Street Brisbane QLD 4000

STOCK EXCHANGE LISTING

Billabong International Limited shares are listed on the Australian Securities Exchange (ASX). The home branch is Brisbane. Ticker: BBG.

ANNUAL GENERAL MEETING

The Annual General Meeting of Billabong International Limited will be held in the Sorrento Room of the Sofitel Hotel at Broadbeach, Gold Coast, on Wednesday, 24 October 2012, at 10.00am. A formal Notice of Meeting and Proxy Form will be made available to all shareholders.

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GROUP OPERATING CENTRES

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BILLABONG INTERNATIONAL LIMITED ABN 17 084 923 946

BILLABONG

FINANCIAL REPORT

2011 - 2012



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DIRECTORS

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Billabong International Limited

ABN 17 084 923 946

Contents

	Page
Directors' report	2
Auditor's independence declaration	36
Corporate governance statement	37
Financial report	45
Directors' declaration	133
Independent auditor's report to the members	134
Shareholder information	136

: : FULL FINANCIAL REPORT 2011 - 12

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Billabong International Limited (the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2012.

Directors
The following persons were Directors of Billabong International Limited during the whole of the financial year and up to the date of this report:

E.T. Kunkel
A.G. Froggatt
F.A. McDonald
G.S. Merchant
P. Naude
C. Paull

L. Inman was appointed as Managing Director and Chief Executive Officer (CEO) on 14 May 2012 and continues in office at the date of this report.

D. O'Neill was the CEO and an Executive Director from the beginning of the financial year until he ceased employment on 12 May 2012.

S. Pitkin was appointed as a Director on 28 February 2012 and continues in office at the date of this report.

M.A. Jackson was a Director from the beginning of the financial year until her resignation on 25 October 2011.

Principal activities
During the year the principal continuing activities of the Group consisted of the wholesaling and retailing of surf, skate, snow and sports apparel, accessories and hardware, and the licensing of the Group trademarks to specified regions of the world.

Dividends – Billabong International Limited
Dividends paid to members during the financial year were as follows:

	$'000
• Final ordinary dividend partially franked to 25% for the year ended 30 June 2011 of 13.0 cents per fully paid share paid on 21 October 2011	33,025
• Interim ordinary dividend unfranked for the half-year ended 31 December 2011 of 3.0 cents per fully paid share paid on 19 April 2012	7,645
	40,670

The Board has not declared a final ordinary dividend for the year ended 30 June 2012 and does not expect to declare an interim ordinary dividend for the half-year ended 31 December 2012. The Board confirms that the dividend policy will be reviewed thereafter.

The Dividend Reinvestment Plan (DRP) is suspended until such time as the dividend policy review has been undertaken.

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Review of operations
A summary of consolidated revenues and results by significant geographical segments is set out below:

Segment As Reported	**Segment revenues**		**Segment EBITDAI***	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Australasia	522,265	501,904	(22,471)	55,225
Americas	750,307	843,737	(39,250)	80,194
Europe	278,064	337,627	(12,277)	54,246
Third party royalties	2,608	2,211	2,608	2,211
Share of net profit after-tax of associate	---	---	293	---
Gain on sale, net of transaction costs before income tax	---	---	201,448	---
	1,553,244	1,685,479	130,351	191,876
Less: Net interest expense			(27,883)	(23,045)
Depreciation and amortisation			(47,691)	(41,931)
Impairment charge			(342,955)	---
(Loss)/profit before income tax expense			(288,178)	126,900
Income tax benefit/(expense)			11,497	(8,855)
(Loss)/profit after income tax expense			(276,681)	118,045
Loss attributable to non-controlling interests			1,032	1,094
(Loss)/profit attributable to members of Billabong International Limited			(275,649)	119,139

Segment Constant Currency **	**Segment revenues**		**Segment EBITDAI***	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Australasia	522,265	497,414	(22,471)	54,466
Americas	750,307	816,051	(39,250)	79,770
Europe	278,064	318,013	(12,277)	50,465
Third party royalties	2,608	2,211	2,608	2,211
Share of net profit after-tax of associate	---	---	293	---
Gain on sale, net of transaction costs before income tax	---	---	201,448	---
	1,553,244	1,633,689	130,351	186,912
Less: Net interest expense			(27,883)	(22,291)
Depreciation and amortisation			(47,691)	(40,457)
Impairment charge			(342,955)	---
(Loss)/profit before income tax expense			(288,178)	124,164
Income tax benefit/(expense)			11,497	(9,396)
(Loss)/profit after income tax expense			(276,681)	114,768
Loss attributable to non-controlling interests			1,032	1,094
(Loss)/profit attributable to members of Billabong International Limited			(275,649)	115,862

* Segment Earnings Before Interest, Taxes, Depreciation, Amortisation and Impairment (EBITDAI) excludes inter-company royalties and sourcing fees and includes an allocation of global overhead costs (which include corporate overhead, international advertising and promotion costs, central sourcing costs and foreign exchange movements).

** Due to a significant portion of the Group's operations being outside of Australia, the Group is exposed to currency exchange rate translation risk i.e. the risk that the Group's offshore earnings and assets fluctuate when reported in Australian Dollars. The Group's segment information for the prior year has therefore also been presented in a constant currency basis (i.e. using the current year exchange rates to convert the prior year foreign earnings) to remove the impact of foreign exchange movements from the Group's performance against the prior year comparative.

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Review of operations (continued)

Given the impact of the Group's strategic capital structure review announced to the market on 17 February 2012 and the impact the difficult global macro trading conditions have had on results this year, the Group's results have been presented on an adjusted basis to exclude significant and exceptional items to enable a more representative comparison to the prior year as detailed below. Significant income and cost items associated with the strategic capital structure review includes but is not limited to, doubtful debts, inventory write downs and redundancies partially offset by the gain on sale of 51.5% of the Nixon business (significant items). Exceptional items include other costs and charges associated with certain initiatives outside the ordinary course of operations (exceptional items) (collectively significant and exceptional items).

2012 Adjusted Net Profit After Tax Reconciliation

	Australasia	Americas	Europe	Other ^	Total
	$'000	$'000	$'000	$'000	$'000
EBITDAI As Reported	(22,471)	(39,250)	(12,277)	204,349	130,351
Significant Items (notes 8 and 10)	47,071	91,348	35,553	(201,448)	(27,476)
Exceptional Items ^^	3,880	3,686	58	---	7,624
Exceptional Items Unaudited and Non-IFRS ^^^	5,306	3,919	869	---	10,094
Adjusted EBITDAI ^^	33,786	59,703	24,203	2,901	120,593
Less: Net interest expense					(27,883)
Depreciation and amortisation ^^^^					(44,775)
Adjusted profit before income tax expense ^^^^					47,935
Adjusted income tax expense ^^^^					(15,427)
Adjusted profit after income tax expense ^^^^					32,508
Loss attributable to non-controlling interests					1,032
Adjusted profit attributable to members of Billabong International Limited ^^^^					33,540

^ Includes third party royalties, share of net profit after-tax of associate and gain on sale, net of transaction costs before income tax

^^ Includes costs arising from the strategic capital structure review included in the income statement which are not separately identified in the financial report due to their individual size or nature. The types of expenses included in this balance are fees, charges and other adjustments

^^^ Reflects the margin dilution on the clearance of inventory as a result of the strategic capital structure review which resulted in a margin below that achieved by the Group historically in the ordinary course of business and wage costs associated with employees from the beginning of the year to the date of their redundancy arising from the strategic capital structure review

^^^^ Excludes audited significant and IFRS and unaudited Non-IFRS exceptional items

The prior year included the following pre-tax significant items being acquisition and restructuring costs by segment: Australasia $7.4 million, Americas $4.6 million and Europe $0.3 million.

Comments on the operations and the results of those operations are set out below:

Consolidated Result

Net Loss After Tax for the year ended 30 June 2012 was $275.6 million, a decrease of 331.4% in reported terms (a decrease of 337.9% in constant currency terms) compared to the prior corresponding period (pcp). This result was impacted by the abovementioned significant and exceptional items. Excluding the after-tax impact of these significant and exceptional items in both years, Adjusted Profit attributable to members of Billabong International Limited for the year ended 30 June 2012 was $33.5 million, a decrease of 74.3% in reported terms (a decrease of 73.6% in constant currency terms) compared to the pcp.

Group sales revenue of $1,550.6 million, excluding third party royalties, represents a 7.9% decrease on the pcp in reported terms (down 5.0% in constant currency terms). At a segment level, in constant currency terms, sales revenue in the Americas decreased 8.1%, Europe decreased 12.6% and Australasia increased 5.0% over the pcp.

Consolidated gross margins excluding the impact of significant and exceptional items were 53.2% (53.8% in the pcp in as reported terms).

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Review of operations (continued)

Adjusted EBITDAI of $120.6 million represents a decrease of 40.9% in reported terms (a decrease of 39.4% in constant currency terms) compared to the pcp. The consolidated Adjusted EBITDAI margin of 7.8% decreased by 4.3% points compared to that of the pcp of 12.1%. The lower Adjusted EBITDAI was driven, in particular, by factors including:

- In Europe, sovereign debt issues had a significant adverse impact on consumer confidence and demand, especially in southern European territories, leading to:
  - Delays in shipment of summer product at the request of some wholesale customers
  - Weak in-season repeat business for summer product
  - Weaker winter indent and delayed shipment of winter product
  - Soft trading conditions in Company owned retail
- In Australia, consumers continued to be very cautious given the weak global macroeconomic climate which led to:
  - A significant reduction in summer product shipments in the important trading month of June
  - A highly promotional retail environment adversely impacting Company owned retail performance
- In North America, both wholesale and Company owned retail performance in Canada was subdued and below expectations. In addition, an exceptionally warm winter negatively impacted snow related products leading to lower winter repeats and subdued spring / summer indents

Segment Analysis
In addition to the specific factors discussed by segment below, Adjusted EBITDAI margins have been affected by the allocation of lower global overhead costs compared to the pcp.

Australasia
Compared to the pcp in reported terms, sales revenue increased 4.1% to $522.3 million (up from $501.9 million) and Adjusted EBITDAI decreased 46.1% to $33.8 million (down from $62.7 million). Adjusted EBITDAI margins were lower at 6.5% compared with 12.5% in the pcp, principally reflecting the combined impact of a very weak retail environment in Australia and extremely difficult trading conditions in South Africa offset in part by the abovementioned allocation of lower global overhead costs. Excluding the allocation of global overhead costs, Adjusted EBITDAI margins were 9.1% compared with 16.3% in the pcp.

Compared to the pcp in constant currency terms, sales revenue increased 5.0% and Adjusted EBITDAI decreased 45.4%.

Sales revenues in the Australasian segment increased over the pcp principally as a result of the inclusion of a full year of trading for the prior year acquisitions of SDS/Jetty Surf and Rush Surf in Australia. However, the performance of the underlying Australian business weighed on the region. Low consumer confidence, record savings levels and unseasonally cold summer weather led to a very weak retail trading environment in Australia, compounded by a shift to online shopping given the strong AUD. These factors impacted wholesale repeat business and also impacted company owned retail performance.

Americas
Compared to the pcp in reported terms, sales revenue decreased 11.1% to $750.3 million (down from $843.7 million in the pcp) and Adjusted EBITDAI decreased 29.6% to $59.7 million (down from $84.8 million in the pcp). Adjusted EBITDAI margins were lower at 8.0% compared with 10.1% in the pcp, principally reflecting the performance of both wholesale and Company owned retail performance in Canada offset by the abovementioned allocation of lower global overhead costs. Excluding the allocation of global overhead costs, Adjusted EBITDAI margins were 10.6% compared with 13.9% in the pcp.

Compared to the pcp in constant currency terms, sales revenue decreased 8.1% and Adjusted EBITDAI decreased 29.1%.

Europe
Compared to the pcp in reported terms, sales revenue decreased 17.6% to $278.1 million (down from $337.6 million in the pcp) and Adjusted EBITDAI decreased 55.6% to $24.2 million (down from $54.5 million in the pcp). Adjusted EBITDAI margins of 8.7% were down compared to the pcp of 16.1%, principally reflecting the impact of European sovereign debt issues with shortfalls in wholesale repeat business and higher product input costs offset in part by the abovementioned allocation of lower global overhead costs. Excluding the allocation of global overhead costs, Adjusted EBITDAI margins were 11.3% compared with 20.0% in the pcp.

Compared to the pcp in constant currency terms, sales revenue decreased 12.6% and Adjusted EBITDAI decreased 52.2%.

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Review of operations (continued)

Depreciation and Amortisation Expense
Depreciation and amortisation expense increased 13.7% in reported terms (17.9% in constant currency terms) compared to the pcp primarily due to the inclusion of a full year of trading for the prior year acquisitions of RVCA, West 49, SDS/Jetty Surf, Rush Surf and retail store expansion.

Impairment Charge Expense
As a result of the impairment review of intangible assets, goodwill in North America, Australia and South Africa and goodwill and brand intangibles for Billabong have been written down to their recoverable amounts, being the higher of their value in use or fair value less costs to sell. In addition, a review of retail fixed assets and other intangibles was also performed and where appropriate these have been written down to their recoverable amount. For the year ended 30 June 2012, this resulted in a total impairment charge amounting to $343.0 million.

Net Interest Expense
Net interest expense increased 21.0% in reported terms (25.1% in constant currency terms) compared to the pcp, driven primarily by the inclusion of a full year of borrowings for the abovementioned prior year acquisitions and increased borrowings to fund the payment of the deferred consideration payment for the original acquisition of Nixon and working capital requirements.

Income Tax Expense
The income tax benefit for the year ended 30 June 2012 was $11.5 million (tax expense of $8.9 million in the pcp), an effective rate of tax of 4.0% (2011: 7.0%). The lower effective tax rate is driven by the partial sale of Nixon and other non-taxable items including deferred consideration. Adjusting for these significant amounts and also goodwill impairment and non-recognition of losses the effective tax rate for the Group would have been approximately 33.8% (2011: 21.0% adjusting for equivalent amounts). The effective tax rate is dependent on the mix of profit by country and exchange rate fluctuations.

Consolidated Balance Sheet, Cash Flow Items and Capital Expenditure
Excluding Nixon wholesale sales made in the current year as a result of the partial sale and deconsolidation of that business from the Group accounts and including in the pcp the pre-acquisition sales of RVCA and the significant retail acquisitions of West 49, SDS/Jetty Surf and Rush Surf and excluding any wholesale sales made to these accounts prior to acquisition, working capital represents 19.7% as a percentage of the prior twelve months' sales stated at year end exchange rates, being 8.1% lower compared to the pcp of 27.8% in reported terms in part due to the acceleration of inventory clearance and provisions taken as part of the strategic capital structure review.

Cash inflow from operating activities increased to $78.9 million, being 224.2% higher compared to $24.3 million in the pcp, principally reflecting higher net cash receipts from customers and lower tax payments offset in part by the cash cost of the significant and exceptional items associated with the strategic capital structure review.

Net cash receipts from customers of $123.9 million were 23.7% higher compared to $100.2 million in the pcp representing 102.8% of Adjusted EBITDAI compared to 49.1% for the pcp reflecting strong trading cash flows for the period relative to Adjusted EBITDAI, despite the cash cost of the significant and exceptional items associated with the strategic capital structure review.

Cash inflow from investing activities of $135.1 million was in accordance with expectations and includes the proceeds from the partial sale of Nixon offset by the payment of the deferred consideration payment for the original acquisition of Nixon and investment in owned retail globally.

Net debt decreased 65.6% to $160.9 million over the pcp which principally reflects the receipt of the proceeds from the partial sale of Nixon and the institutional component of the accelerated pro-rata non-renounceable entitlement offer offset by the payment of the deferred consideration for the original acquisition of Nixon, investment in owned retail globally and working capital requirements. The Group has a gearing ratio (net debt to net debt plus equity) of 13.5% as at 30 June 2012 (28.1% in the pcp) and interest cover excluding significant and exceptional items of 2.6 times (6.1 times in the pcp).

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Significant changes in the state of affairs
During the year the Group undertook a strategic capital structure review which included the following:

- The sale of a 51.5% interest in Nixon as announced on 17 February 2012 with the proceeds used to partially repay the amount of outstanding drawn debt. Details of the sale are disclosed in note 10 to the financial statements. Based on information available at the time of the half-year results announcement, the Board and management considered that this transaction would stabilise the Group's balance sheet and capital structure
- Post the announcement of the half-year results on 17 February 2012, the Group experienced a further deterioration in trading conditions, in particular in Europe, Australia and Canada with the result that the Board decided it was prudent to take further action to restore the balance sheet. As a result the Group launched an accelerated non-renounceable pro-rata entitlement offer to shareholders to subscribe for 6 new ordinary shares for every 7 existing ordinary shares to raise approximately $225 million with the proceeds to be applied towards partially repaying the amount of outstanding drawn debt. Details of the changes in contributed equity are disclosed in note 29 to the financial statements
- The closure of underperforming company-owned retail stores to yield an improvement in EBITDAI and reduce lease charges
- The implementation of a cost reduction program targeting annualised cost savings of approximately $30 million

Other than the above there were no significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year
On 20 July 2012 the Group announced the completion of the retail component of the accelerated non-renounceable pro-rata entitlement offer announced on 21 June 2012. The Group received the proceeds for the retail component on 26 July 2012 and applied these proceeds towards the repayment of debt drawn under its financing facilities.

On 24 July 2012 the Board received an indicative, non-binding and conditional proposal from TPG International LLC (TPG) to acquire all of the shares in the Company for $1.45 cash per share by way of a scheme of arrangement. This follows an earlier indicative, non-binding and conditional proposal received from TPG in February 2012 for $3.00 cash per share, subsequently increased to $3.30 cash per share. The latest TPG proposal follows a trading update to the market on 21 June 2012 and subsequent entitlement offer to shareholders increasing shares on issue from 255.1 million (in February 2012) to 478.9 million (in July 2012). Discussions between TPG and the Board are continuing and the proposal is subject to due diligence and the satisfaction of a number of other conditions. There is no guarantee that, following the due diligence process, a transaction will be agreed or that the Board will recommend an offer at the current proposed offer price. In fact, the Board does not believe that the proposal reflects the fundamental value of the Group in the context of a change of control transaction.

Other than the items mentioned above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Likely developments and expected results of operations
The Group expects the current challenging trading conditions to continue during 2012-13. Assuming no further deterioration in these trading conditions, 2012-13 EBITDAI is currently expected to be in the range of $100.0 million to $110.0 million in constant currency terms. This compares to proforma 2011-12 EBITDAI of $84.0 million, excluding 100% of Nixon and significant and exceptional items. This result is expected to be driven by:

- The benefits from the previously announced strategic capital structure review
- The additional benefits realised under the transformation strategy announced on 27 August 2012
- Recognition of the Group's share of after-tax Nixon associate profits

The Board has not declared a final ordinary dividend for the year ended 30 June 2012 and does not expect to declare an interim ordinary dividend for the half-year ended 31 December 2012. The Board confirms that the dividend policy will be reviewed thereafter.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation
The Group, while not subject to any significant environmental regulation or mandatory emissions reporting, voluntarily measures its carbon emissions using the *National Greenhouse and Energy Reporting Act 2007.*

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Information on Directors

TED KUNKEL (*Non-Executive Chairman)*

Experience and expertise
Previously the President and Chief Executive Officer of Foster's Group Limited and associated companies. Mr Kunkel has extensive international business experience. Appointed Non-Executive Director on 19 February 2001.

Other current directorships
None.

Former directorships in last 3 years
None.

Special responsibilities
Chairman of the Board and Nominations Committee and member of Human Resource and Remuneration and Audit Committees.

Interests in shares and options
116,435 ordinary shares in Billabong International Limited.

LAUNA INMAN (*Executive Director from 14 May 2012)*

Experience and expertise
Launa Inman was appointed as Managing Director and Chief Executive Officer effective 14 May 2012. Ms Inman has 32 years of experience in the retail sector and was the managing director of Target Australia, the country's largest retailer of apparel, from 2005 to 2011. Prior to this she was managing director of Officeworks, Australia's largest stationery and office technology retailer, and has considerable skills and depth of experience in global retail, supply chain management, finance, strategic planning and brand marketing.

Other current directorships
Commonwealth Bank of Australia, director since 16 March 2011.

Former directorships in last 3 years
None.

Special responsibilities
Managing Director and Chief Executive Officer.

Interests in shares and options
Nil.

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Information on Directors (continued)

TONY FROGGATT (*Non-Executive Director)*

Experience and expertise
Tony Froggatt was the CEO of Scottish and Newcastle PLC brewing company based in Edinburgh, UK until he retired on 31 October 2007 to return to Australia. He has extensive marketing and distribution knowledge in Australia, Western and Central Europe and Asia particularly in the international food and beverages sectors. Appointed Non-Executive Director on 21 February 2008.

Other current directorships
Brambles Limited, since 21 August 2006.
Coca-Cola Amatil Limited, since 1 December 2010.

Former directorships in last 3 years
AXA Asia Pacific Holdings Limited from 16 April 2008 to 30 March 2011.
National Mutual Life Association of Australasia Ltd from 16 April 2008 to 30 March 2011.

Special responsibilities
Member of Nominations, Human Resource and Remuneration and Audit Committees.
Chairman of Human Resource and Remuneration Committee from 26 October 2011 to 12 April 2012.

Interests in shares and options
7,505 ordinary shares in Billabong International Limited.

ALLAN MCDONALD (*Non-Executive Director)*

Experience and expertise
Allan McDonald has extensive experience in the investment and commercial banking fields and is presently associated with a number of companies as a consultant and company director. Appointed Non-Executive Director on 4 July 2000.

Other current directorships
Multiplex SITES Trust (director of responsible entity, Brookfield Funds Management Limited), director since 22 October 2003 and chairman from May 2005.
Astro Japan Property Group, stapled securities of Astro Japan Property Group Limited (director) and Astro Japan Property Trust (director of responsible entity, Astro Japan Property Management Limited), director and chairman since 19 February 2005.
Brookfield Australian Opportunities Fund, Multiplex European Property Fund and Brookfield Prime Property Fund (director of responsible entity, Brookfield Capital Management Limited) director and chairman since 1 January 2010.
Brookfield Office Properties Inc. (dual listed on NYSE and TSX), director since 4 May 2011.

Former directorships in last 3 years
Ross Human Directions Limited, director and chairman from 3 April 2000 to 14 February 2011.

Special responsibilities
Chairman of Audit Committee and member of Nominations and Human Resource and Remuneration Committees.

Interests in shares and options
218,046 ordinary shares in Billabong International Limited.

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Information on Directors (continued)

GORDON MERCHANT AM *(Non-Executive Director)*

Experience and expertise
Gordon Merchant founded Billabong's business in 1973 and has been a major stakeholder in the business since its inception. Mr Merchant has extensive experience in promotion, advertising, sponsorship and design within the surfwear apparel industry. Mr Merchant was awarded a Member of the Order of Australia in the 2010 Australia Day Honours List for service to business, particularly the manufacturing sector, as a supporter of medical, youth and marine conservation organisations, and to surf lifesaving. Appointed Non-Executive Director on 4 July 2000.

Other current directorships
Plantic Technologies Limited, since 12 April 2005.

Former directorships in last 3 years
None.

Special responsibilities
Member of Nominations and Human Resource and Remuneration Committees.

Interests in shares and options
69,705,463 ordinary shares in Billabong International Limited.

PAUL NAUDE *(Executive Director)*

Experience and expertise
Paul Naude was appointed President of Billabong's American operations in 1998 and established Billabong USA as a wholly owned activity in North America. Paul was appointed to the expanded role of President of the Americas on 9 May 2012. He has been involved in the surfing industry since 1973 with extensive experience in apparel brand management. Appointed Executive Director on 14 November 2002.

Other current directorships
None.

Former directorships in last 3 years
None.

Special responsibilities
President, Americas.

Interests in shares and options
1,045,988 ordinary shares in Billabong International Limited.
282,598 share rights in Billabong International Limited.
524,170 options in Billabong International Limited.

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Information on Directors (continued)

COLETTE PAULL (*Non-Executive Director)*

Experience and expertise
Colette Paull was one of the earliest employees of the Billabong business in 1973. Since that time, Ms Paull has been broadly involved in the development of Billabong's business from its initial growth within Australia to its expansion as a global brand. Ms Paull previously held the position of Company Secretary until 1 October 1999. Appointed Non-Executive Director on 4 July 2000.

Other current directorships
Plantic Technologies Limited, since 7 December 2010.

Former directorships in last 3 years
None.

Special responsibilities
Member of Nominations and Human Resource and Remuneration Committees.

Interests in shares and options
2,973,289 ordinary shares in Billabong International Limited.

SALLY PITKIN (*Non-Executive Director from 28 February 2012)*

Experience and expertise
Sally Pitkin is a former corporate partner of a leading Australian law firm and has extensive experience in listed companies, public sector bodies and specialist fields including corporate governance and structural reform. Ms Pitkin is a Councillor of the Australian Institute of Company Directors (Queensland Council). Appointed Non-Executive Director on 28 February 2012.

Other current directorships
Super Retail Group Limited, director since 1 July 2010.

Former directorships in last 3 years
Aristocrat Leisure Limited, director from 20 June 2005 to 3 May 2011.

Special responsibilities
Chairman of Human Resource and Remuneration Committee (from 13 April 2012) and member of Audit and Nominations Committees.

Interests in shares and options
Nil.

DEREK O'NEILL (*Executive Director until 12 May 2012)*

Experience and expertise
Derek O'Neill was appointed as Chief Executive Officer effective 1 January 2003. He has previously held senior management positions with Billabong, including General Manager of Billabong's European operations from 1992 to 2003. In 2002, Mr O'Neill was awarded a Chevalier d'Ordre de Merite Nationale for services to business in France. Appointed Executive Director on 5 March 2002 and ceased employment on 12 May 2012.

Special responsibilities
Chief Executive Officer until 12 May 2012.

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Information on Directors (continued)

MARGARET JACKSON AC *(Non-Executive Director until 25 October 2011)*

Experience and expertise
Margaret Jackson was a Partner of KPMG Peat Marwick's Management Consulting Division and National Chairman of the KPMG Micro Economic Reform Group until 30 June 1992, when she resigned to pursue a full-time career as a company director. Ms Jackson previously served as a Director of Australia and New Zealand Banking Group Limited, The Broken Hill Proprietary Company Limited, Pacific Dunlop Limited, John Fairfax Holdings Limited, Southcorp Limited and Chairman of Qantas Airways Limited.

Margaret was awarded a Companion of the Order of Australia in the General Division (AC) in June 2003 for service to business in diverse and leading Australian corporations and to the community in the area of support for medical research, the arts and education. Appointed Non-Executive Director on 4 July 2000 and resigned on 25 October 2011.

Special responsibilities
Chairman of Human Resource and Remuneration Committee and member of Nominations and Audit Committees until 25 October 2011.

Company Secretary
The Company Secretary is Ms Maria Manning B.Bus (Acc), CPA and FCIS. Ms Manning was appointed to the position of Company Secretary in April 2006. She has over 21 years experience as a Company Secretary of publicly listed companies in Australia.

Meetings of Directors
The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2012, and the numbers of meetings attended by each Director were:

	Billabong International Limited Board									
	Scheduled Meetings		Unscheduled Meetings		Audit Committee		Nominations Committee		Human Resource and Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
E.T. Kunkel	9	9	32	32	3	3	15	15	10	10
L.K. Inman	1**	1	8**	8	*	*	*	*	*	*
A.G. Froggatt	9	9	32	30	3	3	15	15	10	10
F.A. McDonald	9	9	32	30	3	3	15	14	10	4
G.S. Merchant	9	9	32	31	*	*	15	14	10	9
P. Naude	9	9	32	28	*	*	*	*	*	*
C. Paull	9	9	32	32	*	*	15	15	10	10
S.A.M. Pitkin	2**	2	10**	9	0**	0	5**	5	8**	8
D. O'Neill	8**	8	23**	23	*	*	*	*	*	*
M.A. Jackson	4**	4	7**	7	1**	1	4**	3	2**	2

* Not a member of the relevant Committee.
** Number of meetings held during the time the Director held office or was a member of the committee during the year.

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Remuneration Report

CONTENTS

The information provided in this report has been prepared based on the requirements of the *Corporations Act 2001* and the applicable accounting standards. The report has been audited and is set out under the following headings.

MESSAGE FROM THE BOARD **14**
BILLABONG GROUP EXECUTIVES **15**
Other executive changes during 2011-12 15

2011-12 REMUNERATION IN BRIEF **16**
Non-executive and key management personnel changes 16
Performance and reward 16
Remuneration outcomes for the CEO and senior executives 16
Non-Executive Director (NED) remuneration 17

1. INTRODUCTION **18**
2. REMUNERATION GOVERNANCE **18**
Recommendation provided 18

3. CEO AND SENIOR EXECUTIVE REMUNERATION **19**
Remuneration principles 19
Remuneration strategy 20
Executive remuneration structure 21
Remuneration outcomes for 2011-12 25
Summary of executive contracts 28
Statutory remuneration disclosures 29
Fixed and at risk remuneration 30

4. NON-EXECUTIVE DIRECTOR REMUNERATION **30**
Approach to setting Non-Executive Director remuneration 30
Approved fee pool 30
Fees paid during 2011-12 (and comparatives) 31

5. ADDITIONAL STATUTORY DISCLOSURES **31**
Share-based compensation 31
Short Term Incentive (STI) and options 32

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Remuneration Report (continued)

MESSAGE FROM THE BOARD

Dear Shareholders,

On behalf of the Board of Billabong International Limited, I present Billabong's 2011-12 Remuneration Report.

The 2011-12 financial year has been a year of renewal for Billabong with significant leadership changes.

Launa Inman was appointed Managing Director and Chief Executive Officer in May 2012 and brings with her extensive retail, supply chain management, finance, strategic planning and brand marketing expertise. The previous Chief Executive Officer, Derek O'Neill left the organisation at that time.

The Board has also commenced a substantial renewal program. A global search firm has been engaged to assist the Board with the search for appropriately experienced Non-Executive Directors to join the Board. The process includes a global search for a new Chair, Chair of the Audit and Risk Committee and a Director with extensive global retail experience. Substantial progress has been made in identifying and engaging with high calibre candidates.

When it comes to executive remuneration, the Board recognises the importance of a strong ongoing alignment between executive remuneration, company performance and shareholder returns.

Shareholder feedback continues to have a major influence on any remuneration decisions and in 2011-12 the Board engaged with a number of major shareholders and advisory groups to ensure they were fully informed regarding the current approach to executive remuneration. Feedback gathered via this process and various other sources was thoroughly reviewed and compared to the market practices of other ASX listed entities to confirm that the remuneration policy reflects a pay-for-performance philosophy and is aligned to shareholder interests.

The Board undertook a major re-write of the Remuneration Report in 2010-11. The last report was well received and a number of meetings were held with key advisors to solicit further feedback on the document to ensure it continues to evolve and improve. Overall the feedback received was again very positive with little suggestion for further change given the substantial redraft in 2010-11.

The link between performance and reward remains strong with no short term incentive payments to our senior executives in 2011-12. For the third consecutive year no awards vested under our hurdled long term incentive plan and on average, remuneration outcomes for those senior executives who were in the Group's employ in 2010-11 as well as 2011-12 decreased by 16%.

The Board continues to remain focused on driving and rewarding executive performance to deliver Billabong's strategy and ultimately, growth in shareholder wealth.

We have endeavoured to produce a Remuneration Report which meets regulatory requirements, is informative, clear and concise and provides information to clearly see the link between executive remuneration and company performance.

Yours faithfully



Sally Pitkin
Chair of the Human Resource and Remuneration Committee

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Remuneration Report (continued)

BILLABONG GROUP EXECUTIVES

The Billabong Group executives, including the Executive Directors, other Key Management Personnel (KMP) and the Non-Executive Directors in 2011-12 referenced throughout this report are listed below.

Executive Directors	
Launa Inman[1]	Managing Director and Chief Executive Officer (CEO)
Paul Naude	President of the Americas (President Americas)

Other Key Management Personnel (KMP)	
Franco Fogliato	General Manager, Billabong Group Europe (GM Europe)
Shannan North	General Manager, Billabong Group Australasia (GM Australasia)
Craig White	Chief Financial Officer (CFO)

Non-Executive Directors (NEDs)	
Ted Kunkel	Chairman
Tony Froggatt	Director
Allan McDonald	Director
Gordon Merchant AM	Director
Colette Paull	Director
Sally Pitkin[2]	Director

[1] *Appointed 14 May 2012.*
[2] *Appointed 28 February 2012.*

Other executive changes during 2011-12

- Derek O'Neill's employment as Chief Executive Officer ceased on 12 May 2012, effective the same date, he resigned as Executive Director.
- Margaret Jackson retired from the role of Non-Executive Director on 25 October 2011.
- Effective 1 July 2011, Johnny Schillereff no longer classified as KMP.
- As per amendments to the Corporations Law effective 1 July 2011 regarding remuneration disclosure of KMP only, Ed Leasure's remuneration for the 2011-12 financial year is not disclosed.

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Remuneration Report (continued)

2011-12 REMUNERATION IN BRIEF

Non-executive and key management personnel changes

Key events during the 2011-12 financial year were the appointments and departures of a number of non-executive, executive and key management personnel. Details of these changes are summarised below with remuneration particulars included throughout this report.

Date	Details
25 October 2011	Margaret Jackson retired as a Non-Executive Director at the 2011 Annual General Meeting and did not stand for re-election.
28 February 2012	Sally Pitkin was appointed Non-Executive Director. On 13 April 2012 she was also appointed Human Resources and Remuneration Committee Chair.
12 May 2012	Derek O'Neill's employment as Chief Executive Officer ceased and he resigned as an Executive Director.
14 May 2012	Launa Inman was appointed Managing Director and Chief Executive Officer.

Also during the year both Ted Kunkel and Allan McDonald announced their intention to retire from the Board of Directors. Ted Kunkel intends to retire from the position of Board Chair between the Annual General Meeting in October 2012 and the release of 31 December 2012 half year results in February 2013. Allan McDonald intends to retire from the position of Non-Executive Director and Audit Committee Chair at the conclusion of the Annual General Meeting in October 2012.

Performance and reward

In order to ensure executive reward is directly linked to performance, Billabong's executive remuneration framework was reviewed alongside a number of key 2011-12 business success drivers. The table below provides a top line summary of the strong link between business performance and executive reward.

2011-12 key success driver	How this driver is recognised in Billabong's executive remuneration framework
Financial success	70% of short term incentive potential is based on the achievement of Net Profit After Tax (NPAT) and Earnings Before Income Tax, Depreciation, Amortisation and Impairment (EBITDAI) targets.
Strong working capital position	30% of short term incentive potential is based on a Group net cash flow target[1].
Increasing shareholder wealth	LTI performance hurdles are related to Earnings Per Share (EPS) and Total Shareholder Return (TSR).
Alignment of executive and shareholder interests	Between 25% to 30% of short term incentive is in the form of deferred equity. Linkage of short term incentive and long term incentive performance hurdles to financial success, strong working capital position and return to shareholders.

[1] *The Board determined to introduce a Group Return on Capital Employed (ROCE) measure as a key success driver for the 2012-13 performance year. This driver will replace the current Group net cash flow target. The Committee considers this to be among the most important factors which drives sustainable improvement in shareholder value. The measure clearly shows the return the business is gaining from its assets.*

Remuneration outcomes for the CEO and senior executives

Table A sets out the 2011-12 remuneration outcomes of Billabong's continuing CEO and other senior executives. This table provides shareholders with a clear picture of take home pay for the year ended 30 June 2012.

Details of Launa Inman's remuneration arrangements and employment agreement were announced to the market on 9 May 2012 and are summarised on page 25.

Details of former CEO, Derek O'Neill's remuneration for 2011-12 are set out on page 26.

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Remuneration Report (continued)

In 2011-12 there were no changes to base salary or short term incentive (STI) potential for President Americas Paul Naude, GM Australasia Shannan North, GM Europe Franco Fogliato and Chief Financial Officer Craig White.

The last time the Board granted a base salary increase to these executives was 1 September 2010. For executives in Billabong's employ in 2010-11 and 2011-12 any changes to base salary in the remuneration tables throughout this report are a result of financial year reporting versus calendar year reporting and/or currency fluctuations.

In 2010-11 a number of changes were made to the Tier 1, Executive Performance Share Plan (EPSP) including the introduction of Total Shareholder Return (TSR) as a second performance hurdle, a pooling approach to the Earnings Per Share (EPS) calculation and the decision to no longer pay dividends on unvested shares. Given these changes, the Board believes that the structure of the current plan is appropriate and no changes were made to the EPSP in 2011-12. Furthermore, there was no change to the number of shares allocated to the Executives under the EPSP in 2011-12.

Table: A[1]

Name		Base salary $'000	Short-term incentive earned (cash) $'000	Short-term incentive (deferred equity) $'000	Other incentive $'000	Non-monetary benefits[2] $'000	Long-term incentives (value vested during the year) $'000	Super-annuation $'000	Total Remun-eration realised $'000
Launa Inman[3]	**2012**	148	---	---	100	2	---	2	252
	2011	---	---	---	---	---	---	---	---
Paul Naude[4]	**2012**	1,066	---	---	---	17	---	3	1,086
	2011	*1,112*	*190*	---	---	*16*	---	*3*	*1,321*
Franco Fogliato[5]	**2012**	605	---	---	---	14	---	---	619
	2011	*612*	*95*	*32*	---	*10*	---	---	*749*
Shannan North	**2012**	705	---	---	---	9	---	16	730
	2011	*675*	*130*	*52*	---	*7*	---	*15*	*879*
Craig White	**2012**	739	---	---	---	3	---	16	758
	2011	*720*	*103*	*44*	---	*3*	---	*15*	*885*

[1] This Table A excludes details of accrued long service leave and accounting charges for share based payments. Details of these items are set out in Table E on page 29.
[2] Non-monetary benefits may include clothing allowance, vehicle allowance, health insurance and for Franco Fogliato, an annual statutory payment.
[3] Appointed CEO on 14 May 2012. Upon appointment was paid a sign-on payment (shown in 'Other incentive' column) to be used to purchase Billabong shares.
[4] Remuneration impacted by exchange rate fluctuations.
[5] Remuneration impacted by exchange rate fluctuations.

Non-Executive Director (NED) remuneration

The NED fee pool currently stands at $1,500,000 in total and was approved by shareholders at the 2010 Annual General Meeting.

In 2011-12 there were no changes to individual NED fees with the exception of Tony Froggatt and Sally Pitkin.

Tony Froggatt temporarily filled the role of Human Resources and Remuneration Committee Chair for the period 26 October 2011 up to 12 April 2012. Over this period Tony Froggatt was paid an additional Committee Chair fee. Sally Pitkin was appointed on 28 February 2012 and on 13 April 2012 she was also appointed Human Resources and Remuneration Committee Chair.

For the other Non-Executive Directors there have been no changes to their individual fees since 1 July 2007.

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Remuneration Report (continued)

1. INTRODUCTION

This Billabong Group Remuneration Report is for the year ended 30 June 2012. It forms part of the Billabong Group Directors' Report and has been audited in accordance with the *Corporations Act 2001*.

The Remuneration Report details remuneration information as it applies to Billabong Group executives, including the CEO, Key Management Personnel (KMP) and Non-Executive Directors.

For clarity, the term KMP is used throughout this report to reference the Executive Directors and identified Billabong Group executives included in this report who are direct reports to the CEO. The term KMP does not refer to all direct reports to the CEO.

The people currently in these positions are listed in the table on page 15.

2. REMUNERATION GOVERNANCE

The Board is responsible for ensuring the Group's remuneration strategy is equitable and aligned with company performance and shareholder interests. To assist with this, the Board has established a Human Resource and Remuneration Committee made up of Non-Executive Directors only.

The Committee is primarily responsible for making recommendations to the Board regarding non-executive director fees, remuneration levels of KMP, the over-arching executive remuneration framework and the general operation of short and long term incentive plans including the setting of performance hurdles.

To ensure the Committee is fully informed when making remuneration decisions, it draws on the services of independent remuneration advisors. Independent remuneration advisors are engaged by and report directly to the Committee and provide advice and assistance on a range of matters including but not limited to:

- updates on remuneration trends, regulatory developments and shareholder views;
- the review, design or implementation of the executive remuneration strategy and its underlying components (such as incentive plans); and
- market remuneration analysis.

The overall remuneration strategy is reviewed annually by the Board to ensure it continues to meet the needs of the Company and shareholders.

Recommendation provided

The Human Resource and Remuneration Committee approved the engagement of Ernst & Young Australia to provide remuneration advice, benchmarking data, market commentary and professional guidance regarding Billabong's executive incentive plans. During this engagement a remuneration recommendation (as defined by the Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011) was provided by Ernst & Young Australia. Both Ernst & Young Australia and the Committee are satisfied that any advice received from, or recommendation provided by Ernst & Young Australia is free from undue influence from the KMP to whom any remuneration advice and remuneration recommendation apply.

The remuneration advice and recommendation was provided to Billabong as an input into decision making only. The Human Resource and Remuneration Committee considered the advice and recommendation, along with other factors, in making its remuneration decisions. The fees paid to Ernst & Young Australia for the remuneration recommendation was $15,450.

Other services provided by Ernst & Young Australia were in relation to general human capital advice (including the remuneration advice noted above), tax advice, and transaction support services. The fees for these services were $775,088 in the 2011-12 financial year.

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Remuneration Report (continued)

3. CEO AND SENIOR EXECUTIVE REMUNERATION

Remuneration principles

A number of principles underpin our remuneration strategy.

Support the execution of business strategy

- Apply performance targets that take into consideration the Group's strategic objectives and business performance expectations and deliver rewards commensurate to achieving these objectives and targets.
- Ensure executives are able to have an impact on the achievement of performance targets.

Alignment with business performance and shareholder return

- Ensure executive remuneration strikes a balance between retaining, motivating and rewarding executives whilst aligning with business performance and shareholder return.
- Align executive remuneration with the creation of shareholder value through offering a portion of the reward package as equity and using performance hurdles linked to shareholder return.

Remuneration benchmarking and market positioning

- Provide a market competitive reward opportunity.
- Encourage the retention of executives and senior management who are critical to the future success of the Group.
- Consider market practice and shareholder views in relation to executive remuneration, while ensuring executive remuneration meets the commercial requirements of the Group.
- Ensure remuneration arrangements are equitable for like positions.

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Remuneration Report (continued)

Remuneration strategy

The Group's executive remuneration strategy provides a strong link between performance and reward so that executive reward outcomes are dependent on delivering results to shareholders, while at the same time motivating and retaining top talent by providing market competitive fixed remuneration and an incentive framework that rewards for results delivered.

The following diagram illustrates how the Group's remuneration strategy aligns with business objectives and links executive remuneration to company performance and the delivery of shareholder returns.

Business objective
To maintain a global leadership position in the design, marketing, wholesaling and retailing of boardsports inspired apparel and accessories and, in turn, build long-term value for stakeholders.

Remuneration strategy objectives and approach	
Align executive remuneration to company performance and deliver results to shareholders • Remuneration is measured against Group business objectives as well as Total Shareholder Return (TSR) and Earnings Per Share (EPS). • Short and long-term components of remuneration are "at risk" based on performance and return to shareholders.	**Attract and retain executive talent in a highly competitive global market** • Reward competitively in the global markets in which the Group operates, which include Australasia, the Americas and Europe. • Offer remuneration that balances fixed and variable ("at risk") short and long-term incentives

	Fixed remuneration	**Short Term Incentive (STI)**	**Long Term Incentive (LTI)**
Consists of…	Base salary plus benefits (which vary by country).	Annual payment opportunity (cash or part cash, part deferred equity for some participants).	An offer to participate in the EPSP. Granted annually at the discretion of the Group.
Rewards for…	Performance, skills and capabilities.	Performance over a 12-month period against agreed performance objectives.	Growth in the Company's EPS over a three-year period. TSR relative to a comparator group, also over a three-year period.
Is…	**Fixed.** Reviewed annually.	**At risk.** Wholly dependent on achieving agreed performance objectives. Granted annually.	**At risk.** Awards rely on hurdles being met. Value to the executive depends wholly on the Group's performance.
Determined by…	Referencing global and local market movements for the role, market pay comparisons, individual performance and role accountabilities.	Performance hurdles focus executive attention on the Group's critical performance metrics and key business objectives. If all performance objectives are fully met as set, 100% of the STI is earned. If performance objectives are only partially met, a proportional percentage of STI is earned. No outperformance STI targets are set.	Alignment to the Group's business strategy and requirement for key executives to drive company performance in both absolute and relative terms. Performance is assessed using EPS and TSR. EPS takes into account the impact of currency movements, as these movements impact the value created for shareholders. TSR demonstrates value returned to shareholders relative to a comparator group.

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Remuneration Report (continued)

Executive remuneration structure

Remuneration mix
Fixed annual remuneration provides a "base" level of remuneration. Short and long term variable ("at risk") incentives reward executives for meeting and exceeding predetermined performance targets linked to the achievement of the Group's business objectives. This ensures variable reward is achieved only when value has been created for shareholders.

As executives gain seniority within the Group, the balance of the remuneration mix shifts to a higher proportion of variable reward to ensure senior executive reward is linked to performance. The following table sets out the current target remuneration mix for the KMP.

Table: B

Name	**Fixed remuneration[1]**	**At risk – Target Short Term Incentive (cash)[2]**	**At risk – Target Short Term Incentive (deferred equity)[3]**	**At risk – Long Term Incentive[4]**
Launa Inman[5]	40%	30%	10%	20%
Paul Naude	50%	33%	---	17%
Franco Fogliato	45%	30%	12%	13%
Shannan North	45%	31%	12%	12%
Craig White	45%	31%	13%	11%

[1] Includes base salary and superannuation.
[2] Includes cash portion of target short term incentive potential.
[3] Includes deferred equity portion of target short term incentive potential. All executives with the exception of Paul Naude receive between 25 to 30% of their total STI as deferred equity.
[4] Includes shares and rights and is quantified using the purchase price at grant date (for 2011-12 this was $3.62)
[5] As Launa Inman was not eligible for STI nor LTI in 2011-12, her remuneration breakdown shown above is that for the 2012-13 financial year.

Fixed annual remuneration
Fixed annual remuneration includes base salary, non-cash benefits (such as vehicle and clothing allowance) and superannuation contributions. It rewards executives for effective delivery of the requirements of their roles and behaving in accordance with the Group's culture and values.

Fixed annual remuneration is determined by individual performance and by referencing market movements. Generally, fixed annual remuneration is set at the market median, with a total remuneration opportunity, including the variable short-term and long-term ("at risk') components, at around the 75th percentile of the market.

KMP remuneration levels are reviewed by the Human Resource and Remuneration Committee annually and upon promotion. This ensures executive fixed remuneration reflects the executive's role requirements and level of accountability and remains competitive in the marketplace.

In 2011-12 Ernst & Young Australia were engaged to undertake a comprehensive remuneration benchmarking exercise on all KMP roles. Market data used for this exercise included data from other ASX listed organisations along with data from a select group of organisations within the retail, apparel and boardsports sector both domestically and globally.

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Remuneration Report (continued)

Variable remuneration components

Short Term Incentive (STI)	
What is the purpose of the STI?	STI performance hurdles focus executive attention on the Group's critical performance metrics and key business objectives. STI rewards executives for achieving Billabong Group performance targets against expectations.
Who participates?	All Key Management Personnel (KMP). For 2011-12 Launa Inman was not eligible to participate in the STI Plan. This is because her appointment to the role of CEO occurred with less than 2 months of the financial year remaining.
What are the performance conditions?	Each executive has a target STI amount that can be earned each year, subject to performance against the measures relevant to their role. If all performance objectives are fully met as set, 100% of the STI is earned. If performance objectives are only partially met, a corresponding proportional percentage of STI is earned. In 2011-12, Paul Naude, Franco Fogliato, Shannan North and Craig White also had the potential to earn a stretch STI amount. The Board has discretion to pay beyond the target STI amount only in exceptional circumstances. This discretion is wholly based on the financial performance of the Group. Details of the actual performance measures (that is, the KPIs) set for the senior executives for 2011-12, together with the performance achieved, are provided on page 27.
How is it measured to determine payments?	With the exception of Group NPAT and Group EBITDAI, financial performance is assessed in local constant currency terms so that some portion of the potential reward is not skewed by currency fluctuations that are beyond the control of the executive.
Over what period is it measured?	Performance is measured over the 12 month period from 1 July to 30 June. STI payments are made early the following September.
How is it paid?	The STI reward is paid as a cash bonus. For all KMP except Paul Naude a portion (25-30%) of STI earned is delivered as deferred equity in the form of shares or rights, which vest after a two year period. STI deferral is not implemented for Paul Naude due to existing contractual arrangements. The deferred portion is forfeited if the executive leaves before the end of the two year vesting period. The target STI opportunity for Franco Fogliatio, Shannan North and Craig White is between 95 and 100% of base salary. In 2011-12 each of these executives also had the potential to earn a stretch STI amount which is the same as the target amount. Paul Naude's target STI opportunity is 68% of base salary and his stretch opportunity is 45% of base salary. As noted above, payment of any stretch STI is only in exceptional circumstances and is wholly based on the Group's financial performance. Launa Inman did not participate in the STI plan for the 2011-12 financial year, however, her target STI opportunity going forward will be equivalent to 100% of total fixed remuneration.
When and how is it reviewed?	STI measures are reviewed annually in line with a review of budgets and the annual business plan. The design of the STI plan was last reviewed in 2011-12.
Who assesses performance against targets?	The CEO provides recommendations for her direct reports to the Human Resource and Remuneration Committee. The Human Resource and Remuneration Committee make recommendations to the Board, which makes the final determination on the CEO direct reports' remuneration. The Board reviews the performance of the CEO.

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Remuneration Report (continued)

Executive Performance Share Plan (EPSP) / Long Term Incentive (LTI) plan	
What is the purpose of the EPSP?	The EPSP is a long term incentive plan that focuses executives on the long term performance of the Group. Executives are rewarded in the form of shares or conditional rights, depending on the tax implications in the relevant market, when targets are met and exceeded.
Who participates?	All Key Management Personnel (KMP). Launa Inman's first award under the EPSP will be in 2012-13. All other KMP received awards in 2011-12.
What are the performance conditions?	50% of awards are based on Executives meeting the Group's three-year Earnings Per Share (EPS) performance targets. EPS is a key financial indicator that measures how the Group's earnings have grown over the performance period. EPS takes into account the impact of currency movements, as these movements impact the value created for shareholders. 50% of awards are based on relative Total Shareholder Return (TSR). Relative TSR demonstrates how the Group has returned value to its shareholders relative to a select comparator group over a three year period. This means executives will be rewarded only where Billabong's shareholder return has at least met the median of its peers, with 100% of the EPSP grant vesting only if the Group's performance is in the upper quartile of the selected peer group. Billabong's comparator group comprises Australian companies listed in the S&P/ASX 200 at the beginning of each performance period, excluding those companies classified within the Financials and Energy sectors and Metals and Mining Industry Group. Following a comprehensive review of a number of potential comparator groups and external advice from remuneration consultants, the group selected by the Board was chosen on the basis that it had the highest correlation with Billabong's TSR and in comparison to smaller peer groups within the same sector, is less likely to create significant volatility in Billabong's TSR ranking and potentially reduce the effectiveness of the LTI as a performance incentive. Executive Director grants are subject to shareholder approval.
How is it measured to determine payments?	For awards granted during 2011-12, the EPS performance targets are measured as follows. All figures are calculated based on EPS achieved in the 2010-11 base year: • For 6% EPS compound annual growth, 50% of the EPSP award vests. • For 10% or greater EPS compound annual growth, 100% of the EPSP award vests. • Straight line vesting of awards for performance between these two targets. • Below 6% EPS compound annual growth, nothing vests. EPS is calculated on a pooling approach which requires the Company to achieve an aggregated target pool of EPS over the performance period, with the target pool calculated based on challenging EPS compound growth targets ranging from 6% to 10% per annum growth for minimum and maximum vesting respectively. TSR performance targets are measured as follows: • If relative TSR performance is at or above the 75th percentile, full vesting of the TSR portion (100%) occurs. • For performance between the 50th percentile and the 75th percentile, 50% to 100% of the TSR portion will vest on a pro-rata basis. For relative TSR performance below the 50th percentile against the selected comparator group of companies, none of the TSR portion will vest.

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Remuneration Report (continued)

<table>
<tr><th colspan="2">Executive Performance Share Plan (EPSP) / Long Term Incentive (LTI) plan (continued)</th></tr>
<tr><td>Over what period is it measured?</td><td>All EPSP performance is measured over a three year period commencing 1 July in the year the grants were made. For example, the performance period for the 2011-12 awards is 1 July 2011 to 30 June 2014.</td></tr>
<tr><td>How is it paid?</td><td>Grants are approved annually and vest on the third anniversary of the grant being made subject to meeting the EPS performance hurdles in the relevant performance period. The performance periods for outstanding awards are as follows:
<table>
<tr><th>Grant approved</th><th>Performance period</th><th>Vesting subject to performance testing</th></tr>
<tr><td>2009-10</td><td>From July 2009 to June 2012</td><td>August 2012</td></tr>
<tr><td>2010-11</td><td>From July 2010 to June 2013</td><td>August 2013</td></tr>
<tr><td>2011-12</td><td>From July 2011 to June 2014</td><td>August 2014</td></tr>
</table>
For awards granted up to and including the 2010-11 awards, the employee can vote and receive dividends in respect of shares allocated to them. For awards granted in 2011-12 and beyond, the employee cannot vote and the EPSP dividends will be held in trust during the performance period and net dividends will be paid to executives only on performance shares that vest. If no shares vest, no dividends are payable.

Dividends are paid on any STI deferral earned.</td></tr>
<tr><td>When and how is it reviewed?</td><td>At the end of each performance period, the Human Resource and Remuneration Committee consider the EPS and TSR performance of the Company and determines to what extent the awards should vest.</td></tr>
<tr><td>What market benchmark is applied?</td><td>Each year, prior to awards being granted, the Human Resource and Remuneration Committee considers the market environment, the Group's business strategy, performance expectations and shareholder expectations and sets the performance targets for the awards to be granted. No retesting is permitted.</td></tr>
<tr><td>Are performance conditions set?</td><td>Target and stretch performance hurdles are set in line with economic conditions and business objectives and are designed to be challenging but ultimately achievable if the Group performs in accordance with its business strategy.</td></tr>
<tr><td>What happens if a change of control occurs?</td><td>If a 50% change of control occurs, the Board may in its absolute discretion resolve that the conditions applicable to the award of shares which have not been satisfied are waived.
If a 90% Change of Control has occurred, all shares immediately vest.</td></tr>
<tr><td>Who assesses performance against targets?</td><td>The Human Resource and Remuneration Committee.</td></tr>
</table>

Executive Performance and Retention Plan (EPRP)
The EPRP was a one-off initiative in 2008-09 to reward and retain the Group's senior executives for growing Billabong's market value, measured by share price growth, over the five year period to 2012-13. Under the EPRP, Paul Naude, Shannan North, Franco Fogliato and Craig White were granted options, which, provided they vest and become exercisable, can be converted into ordinary company shares. Given the EPRP was a one-off initiative in 2008-09 and Launa Inman was appointed in May 2012, she does not participate in the plan.

The plan directly links executive performance to shareholder return by requiring executives to achieve two Total Shareholder Return (TSR) performance targets: a 'gateway' hurdle under which executives need to achieve above median TSR performance relative to a comparator group and a 'stretch' hurdle requiring the achievement of a 120% target over five years.

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Remuneration Report (continued)

Should a takeover bid be made or the Board recommend that a takeover bid be accepted or a takeover bid be declared unconditional, the Board may, in its absolute discretion, having reasonable regard to pro-rata performance against the EPRP hurdles and the time elapsed since the grant date, determine that all or a specified number of options which have not previously become exercisable, become exercisable.

In 2011-12 the Company's TSR performance against the gateway relative TSR hurdle is below the level that will permit any of the award to vest (that is, it is below the median of the comparator group). In addition, absolute TSR has not achieved the 80%, 100% or 120% target. This means that no EPRP incentive payments vested in 2011-12.

Equity arrangements for Billabong Employees

Billabong encourages employee share ownership to promote alignment between employee and shareholder interests. Billabong currently offers a *Tax Exempt Employee Share Plan* to permanent Australian based employees with at least 12 months of service. Non-executive directors are not eligible to participate in this plan. In 2011-12, the plan operated as follows:

- **Tax Exempt Employee Share Plan:** Eligible employees can contribute a maximum of $800 of their pre-tax base salary and/or bonus and the Company will contribute a further $200 to purchase Billabong shares. Shares acquired under the Plan are subject to a three year restriction period and are income tax free on the condition that the employee's taxable income for the year ended 30 June 2012 does not exceed $180,000.

Securities Trading Policy

The trading of shares or rights issued to participants under any of Billabong's equity plans is subject to, and conditional upon, compliance with Billabong's securities trading policy. Executives are prohibited from hedging or otherwise reducing or eliminating the risk associated with equity-based incentives offered by Billabong, such as unvested performance shares and options or vested shares that remain subject to a disposal restriction.

If an executive breaches this policy by hedging or otherwise enters into an arrangement which is designed to reduce or eliminate the risk associated with equity-based incentives, the executive's incentives will be forfeited or will lapse and the executive will be subject to disciplinary action and potential dismissal.

Remuneration outcomes for 2011-12

Managing Director and Chief Executive Officer remuneration arrangements

Launa Inman was appointed Managing Director and Chief Executive Officer on 14 May 2012. Her remuneration arrangements in this role are as follows:

Fixed annual remuneration	Initial total fixed remuneration is $1.3 million per annum (includes superannuation).
Short term incentive	Will participate in Billabong's STI Plan from the 2012-13 financial year onwards. The STI potential for any one performance year will be up to 100% of total fixed remuneration. 25% of any STI paid will be in the form of deferred equity. The deferral period is two (2) years.
Long term incentive	Will participate in Billabong's LTI Plan from the 2012-13 financial year onwards. Face value of 2012-13 LTI award is $614,000.
Sign-on payment	Upon commencement received a sign-on payment of $100,000 which was to be used to acquire Billabong shares.
Non-monetary benefits	Payment of reasonable expenses involved in relocating from Melbourne, Victoria to the Gold Coast, Queensland. An annual clothing allowance of $2,500 for the purchase of Billabong Group garments and accessories.

For KMP Paul Naude, Shannan North, Franco Fogliato and Craig White, the combined amount of executive remuneration paid and/or vested decreased in 2011-12 by around 16%. This reflects the Group's business performance.

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Remuneration Report (continued)

Derek O'Neill Termination Arrangements
Derek O'Neill left the organisation on 12 May 2012. As at termination he was paid his contractual entitlements.

The company entered into an Executive Agreement with Derek O'Neill in November 2002 appointing him as Chief Executive Officer. Prior to his appointment as Chief Executive Officer he had been employed by the Group as General Manager - Europe. The Executive Agreement entered into with Derek O'Neill at that time of his appointment to the position of Chief Executive Officer included a notice provision requiring him to give the company twelve months' notice and the company to give him twenty four months' notice of termination. Derek O'Neill received payment in lieu of notice of termination. No short term incentive was paid and no long term incentive vested. All existing long term incentives (rights and options) lapsed as a result of his termination.

Five year performance and reward relationship
The overall level of executive reward takes into account the performance of the Group over a number of years. Over the past five years, the Group's profit from ordinary activities after income tax has decreased at a compound rate of 210.5% per annum on a statutory reported basis or decreased at a compound rate of 27.5% (unaudited) excluding significant and exceptional items, and shareholder wealth has decreased at a compound rate of 40.5% per annum, assuming all dividends are re-invested back into Billabong International Limited shares on the payment date. During the same period, executive remuneration has decreased at a compound rate of 7.4% per annum.

Short Term Incentive (STI) outcomes aligned with company performance
As evidenced in Table C, there were no STI payments in line with declining key financial performance metrics.

STI outcomes

The following table shows STI paid/forfeited where the STI represents the total STI potential possible (stretch and deferred equity).

Table: C
STI paid and forfeited 2007-08 to 2011-12

Executive	2007-08		2008-09		2009-10		2010-11		2011-12	
	paid	forfeited	paid	forfeited	paid	forfeited	paid	forfeited	paid	forfeited
Launa Inman[1]	--	--	--	--	--	--	--	--	--	--
Derek O'Neill[2]	100%	0%	50%	50%	42%	58%	0%	100%	0%	100%
Paul Naude	100%	0%	40%	60%	35%	65%	15%	85%	0%	100%
Franco Fogliato	100%	0%	100%	0%	33%	67%	10%	90%	0%	100%
Shannan North	100%	0%	70%	30%	31%	69%	13%	87%	0%	100%
Craig White	100%	0%	100%	0%	31%	69%	10%	90%	0%	100%

[1] *Based on appointment date of 14 May 2012, not eligible to participate in the STI plan for the 2011-12 financial year.*
[2] *Employment ceased on 12 May 2012.*

LTI outcomes aligned with company performance
For the Executive Performance Share Plan (EPSP) as it applies to the KMP, company performance is currently measured by growth in annual compound Earnings Per Share (EPS). The second TSR hurdle is only applicable to awards made from 2010-11 onwards.

EPS growth is determined by calculating the annual compound growth in EPS from 1 July in the base year to 30 June at the end of the three year period.

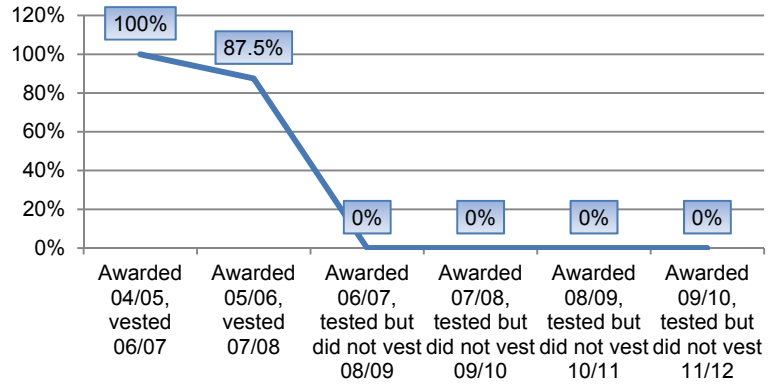
Since the introduction of the EPSP in 2004, only two grants have vested. The 2004-05 grant vested fully in 2006-07 at 100% based on growth in EPS in excess of 20%. The 2005-06 grant vested partially in 2007-08 at 87.5% based on 17.5% growth in EPS.

No other awards have met the required performance hurdles and therefore no other awards have vested, including the current tranche of the EPSP granted in 2009-10, which did not meet the required EPS growth targets.

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Remuneration Report (continued)

EPSP vested
LTI grants for the five most senior executives pay out only if the Group's performance meets set performance hurdles. As this chart shows, sometimes grants do not pay out at all or pay out only proportionally.



Other Group Executives
In 2008, unhurdled share and rights awards were introduced under the EPSP for other Group Executives. At the time of the 2011-12 award (1 September 2012), this Plan covered 94 employees below KMP. This Plan has a retention focus and is unhurdled with awards vesting two years from grant date as long as the participant remains employed at the vesting date. The participants receive dividends on unvested shares. Change of control provisions for the unhurdled EPSP are the same as those for the hurdled plan, that is, if a 50% change of control occurs, the Board may at its discretion resolve that the conditions applicable to the award which have not yet been satisfied are waived. If a 90% change of control occurs all the performance shares will immediately vest.

Summary of executive performance measures set and achieved
The table below shows the performance measures (that is, the Key Performance Indicators or KPIs) set for KMP for 2011-12, together with the performance achieved against each KPI.

Table: D

Executive	Summary of performance measures / KPIs	Weighting	Achievement 2011-12
President Americas Paul Naude	• Billabong Group Net Profit After Tax (NPAT) target • North America EBITDAI target • Billabong Group net cash flow target	35% 35% 30%	Not achieved
GM Europe Franco Fogliato	• Billabong Group Net Profit After Tax (NPAT) target • Europe EBITDAI target • Billabong Group net cash flow target	35% 35% 30%	Not achieved
GM Australasia Shannan North	• Billabong Group Net Profit After Tax (NPAT) target • Australasia EBITDAI target • Billabong Group net cash flow target	35% 35% 30%	Not achieved
CFO Craig White	• Billabong Group Net Profit After Tax (NPAT) target • Billabong Group EBITDAI target • Billabong Group net cash flow target	35% 35% 30%	Not achieved

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Remuneration Report (continued)

Summary of executive contracts

Executive contracts set out remuneration details and other terms of employment for each individual executive. The contracts provide for base salary inclusive of superannuation, reviewed annually by the Human Resource and Remuneration Committee, performance-related cash bonuses, other benefits including health insurance, car allowances and clothing allowances, and participation, where eligible, in long-term incentive plans.

The key provisions of the executive contracts relating to the terms of employment and notice periods are set out in the table below. Contractual terms vary due to the timing of contracts, individual negotiations and different local market practices.

It should be noted that Derek O'Neill's contract was executed prior to the implementation of the legislation applying to termination benefits payable to executives. The contract was not amended or updated following the legislative changes. Consequently, the termination benefit cap is not applicable.

Paul Naude's contract was also executed prior to the implementation of the termination benefit legislation and has not been amended or updated since. As a result, his termination benefits exceed the 12 month cap unless his contract is revised. The contract also prohibits certain changes to his remuneration structure and quantum, for example, the introduction of STI deferral.

Position	Term of contract	Notice period required by executive	Notice period required by the company	Maximum contractual termination payment for good leavers
CEO & Managing Director Launa Inman	On-going	12 months	12 months	Payment in lieu of notice *
President Americas Paul Naude	On-going	18 months	18 months	One and a half times annual base salary plus the performance bonus for the year of termination
GM Billabong Europe Franco Fogliato	On-going	3 months	6 months	6 month separation payment plus payment in lieu of notice *
GM Billabong Australasia Shannan North	On-going	12 months	12 months	Payment in lieu of notice *
CFO Craig White	On-going	6 months, unless leaving to undertake "restricted activities" (including working for a competitor), in which case 9 months notice is required	12 months	Payment in lieu of notice *

* Payment will be "scaled back" if it would otherwise exceed the 12 month average base salary termination benefit cap applicable under Australian law.

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Remuneration Report (continued)

Statutory remuneration disclosures

The following section of this report includes statutory remuneration disclosures. It should be noted that numbers in the share based payments columns represent accounting expenses and not vested awards. As noted on page 26 no LTI awards have vested to the KMP since the 2007-08 financial year.

Table: E

		Short term employee benefits					Post employment benefits	Long term benefits		Share based payments		Total remuneration
Name	Year	Cash salary $'000	Cash bonus $'000	Bonus deferred $'000	Non-monetary benefits $'000	Other[1] $'000	Super-annuation $'000	Long service leave $'000	Termination benefits $'000	Options[2] $'000	Rights[3] $'000	$'000
Executive Directors												
L. Inman[4]	**2012**	148	---	---	2	100	2	---	---	---	---	252
	2011	---	---	---	---	---	---	---	---	---	---	---
D. O'Neill[5]	**2012**	1,073	---	---	7	---	14	108	2,510	(762)	---	2,950
	2011	*1,261*	---	---	*3*	---	15	206	---	286	(146)	1,625
P. Naude [6]	**2012**	1,066	---	---	17	---	3	---	---	238	78	1,402
	2011	*1,112*	*190*	---	*16*	---	3	---	---	238	(126)	1,433
Other KMP												
F. Fogliato[7]	**2012**	605	---	---	14	---	---	---	---	91	39	749
	2011	*612*	*95*	*32*	*10*	---	---	---	---	91	(72)	768
S. North	**2012**	705	---	---	9	---	16	---	---	143	39	912
	2011	*675*	*130*	*52*	*7*	---	15	47	---	143	(73)	996
J. Schilleref[8]	**2012**	---	---	---	---	---	---	---	---	---	---	---
	2011	*464*	*25*	---	*23*	---	2	---	---	---	97	611
C. White	**2012**	739	---	---	3	---	16	27	---	143	39	967
	2011	*720*	*103*	*44*	*3*	---	15	26	---	143	(84)	970
Total	**2012**	4,336	---	---	52	100	51	135	2,510	(147)	195	7,232
	2011	*4,844*	*543*	*128*	*62*	---	50	279	---	901	(404)	6,403

[1] Other short-term employee benefits relate to a sign on payment received upon appointment to purchase company shares.

[2] Remuneration in the form of options relates to the accounting charge recognised in the Group's income statement based on the fair value of the award at the date of grant amortised on a straight-line basis over the vesting period of the EPRP. The accounting charge is reflected as an expense in the financial statements regardless of whether the EPRP may fully vest, partially vest or not vest at all.

[3] Remuneration in the form of rights relates to the accounting charge recognised in the Group's income statement in respect of the EPSP. The accounting charge reflects at 30 June 2012 and 30 June 2011 the most probable likelihood of the 2010-11 and 2011-12 grants vesting to the individual.

[4] Appointed 14 May 2012.

[5] Ceased employment 12 May 2012. The negative amount of share based payments relates to the forfeiture of his unvested Executive Performance Share Plan awards.

[6] Remuneration impacted by exchange rate fluctuations.

[7] Remuneration impacted by exchange rate fluctuations.

[8] Effective 1 July 2011, no longer classified Key Management Personnel.

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Remuneration Report (continued)

Fixed and at risk remuneration

Based on Table E, the 2011-12 fixed remuneration of Paul Naude, Franco Fogliato, Shannan North and Craig White ranged from 77% to 83% whilst their at risk remuneration ranged from 23% to 17%. For Derek O'Neill, his 2011-12 fixed remuneration made up 126% of his total remuneration whilst his at risk remuneration was (26%) due to a negative accounting charge relating to options. In 2011-12 Launa Inman only received fixed remuneration. No short term incentive was paid and no long term incentive was allocated. For remuneration mix details using fixed remuneration, target potential and LTI allocation refer to Table B, page 21.

4. NON-EXECUTIVE DIRECTOR REMUNERATION

Approach to setting Non-Executive Director remuneration

Individual Non-Executive Director fees and the Non-Executive Director fee pool were most recently benchmarked against publicly available data in July 2012. Appropriate benchmark data was selected by setting parameters around revenue, market capitalisation, ASX rank, assets and operating profit before tax.

Non-Executive Directors receive fixed remuneration in the form of a base fee plus a fee for chairmanship of Board committees. Non-Executive Directors do not receive variable remuneration or other performance-related incentives such as equity-based awards or retirement benefits other than statutory superannuation payments.

In 2011-12 Tony Froggatt temporarily filled the role of Human Resources and Remuneration Committee Chair from 26 October 2011 to 12 April 2012 and was paid a Committee Chair fee during this period. Sally Pitkin was appointed on 28 February 2012 and was appointed Human Resources and Remuneration Committee Chair on 13 April 2012. Effective from this date she began receiving a Committee Chair fee.

No other change has been made to individual Non-Executive Director fees since 1 July 2007.

Currently, annual Non-Executive Directors fees are as follows:

Table: F

Non-Executive Director fees	
Fee	**Amount[1] $'000**
Board Chair fee	325
Director fee	130
Committee Chair fee (Audit and Human Resource and Remuneration) – paid in addition to base fee	25

[1] *Excludes superannuation.*

Approved fee pool

Non-Executive Director fees are determined within a maximum Directors' fee pool limit.

In 2010, with shareholder approval, this pool fund was increased from $1,200,000 to $1,500,000 to provide flexibility to make required additions to the Board and to revise fees in line with external market rates. The fee pool is inclusive of superannuation.

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Remuneration Report (continued)

Fees paid during 2011-12 (and comparatives)

Table: G

Name		Fees[1] $'000	Non-monetary benefits $'000	Super-annuation $'000	Long service leave $'000	Total remuneration $'000
Ted Kunkel	**2012**	328	2	16	---	346
	2011	*325*	*2*	*15*	---	*342*
Tony Froggatt[2]	**2012**	143	2	13	---	158
	2011	*130*	*2*	*12*	---	*144*
Margaret Jackson[3]	**2012**	53	2	7	---	62
	2011	*155*	*2*	*14*	---	*171*
Allan McDonald	**2012**	156	2	14	---	172
	2011	*155*	*2*	*14*	---	*171*
Gordon Merchant	**2012**	131	2	12	---	145
	2011	*130*	*2*	*12*	---	*144*
Colette Paull	**2012**	131	2	12	---	145
	2011	*130*	*2*	*12*	---	*144*
Sally Pitkin[4]	**2012**	47	1	4	---	52
	2011	---	---	---	---	---
Total	**2012**	989	13	78	---	1,080
	2011	*1,025*	*12*	*79*	---	*1,116*

[1] The 2011-12 financial year fell into a leap year cycle. Up until May of 2012 Director's fees were paid on a weekly cycle and therefore because of the leap year the weekly cycle included an additional week of payment. The payroll cycle transitioned from a weekly to a fortnightly cycle in May. There were no increases in Director's fees for the financial year. The increase reported results from the fact that 2011-12 was a leap year.

[2] Temporarily filled the role of Human Resources and Remuneration Committee Chair from 26 October 2011 to 12 April 2012. During this period received Committee Chair fee.

[3] Ceased employment on 25 October 2011.

[4] Appointed 28 February 2012 and appointed Human Resources and Remuneration Committee Chair on 13 April 2012. From this date commenced receiving Committee Chair fee.

5. ADDITIONAL STATUTORY DISCLOSURES

Share-based compensation

Executive Performance Share Plan (EPSP)

Details of equity instruments, comprising either performance shares or conditional rights (collectively "rights"), provided as remuneration to each executive are set out below. When vested, each instrument will entitle the holder to one ordinary share of the Company. Rights under the EPSP will vest only if applicable performance hurdles are satisfied in the relevant performance period.

Table: H

Name	Number of rights awarded during the year 2011-12	Number of rights vested during the year 2011-12
Executive Directors		
Derek O'Neill (approved at the 2011 Annual General Meeting)[1]	118,735	---
Paul Naude (approved at the 2011 Annual General Meeting)	103,168	---
Other Key Management Personnel		
Franco Fogliato	51,400	---
Shannan North	51,400	---
Craig White	51,400	---

[1] Rights awarded during the year have since lapsed due to employment ceasing effective 12 May 2012

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Remuneration Report (continued)

The assessed fair value at grant date of rights granted under the EPSP during the year ended 30 June 2012 was $3.62 per right (2011: $7.80). The fair value at grant date is determined by reference to the Company's share price at grant date, taking into account the terms and conditions under which the rights were granted.

Participants do not need to pay for awards on grant, vesting or exercise.

Executive Performance and Retention Plan (EPRP)
The EPRP provides for grants of options over ordinary shares in the Company. Under the EPRP, selected executives were granted options that vest only if certain performance conditions are met and the executives are still employed by the Group at the end of the vesting period. Once vested, the options remain exercisable for a period of two years.

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

Table: I

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date	Performance achieved	% Vested
31 October 2008	31 October 2013	31 October 2015	$11.08[1]	$2.27	To be determined	n/a
24 November 2008	24 November 2013	24 November 2015	$10.80	$1.45	To be determined	n/a

[1] *Shareholder approval was obtained at the 2009 Annual General Meeting to change the exercise price of options granted during the 2008-09 financial year to take into account the Company's entitlement offer in May 2009. Previously, the exercise price for the options was the five day volume weighted average price of the Company's shares up to the date of the grant.*

Options granted under the EPRP carry no dividend or voting rights.

Short Term Incentive (STI) and options

For STI paid, the percentage of the potential STI that was earned or paid, in the financial year, and the percentage that was forfeited are set out below.

STI in this table includes stretch cash and deferred equity.

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Remuneration Report (continued)

Details of cash bonuses, performance shares and conditional rights

Table: J

Name	2011-12 Short Term Incentive (cash)		2011-12 Short Term Incentive (deferred equity)		Performance shares and conditional rights				
	Earned or paid	Forfeited	Earned or paid	Forfeited	Year granted	Vested	Forfeited	Financial years in which may vest	Maximum total value of grant yet to vest [1] $'000
Derek O'Neill[2]	---	100%	---	---	2012	---	100%	30 June 2015	---
					2011	---	100%	30 June 2014	---
					2010	---	100%	30 June 2013	---
					2009	---	100%	30 June 2012	---
Paul Naude	---	100%	---	---	2012	---	---	30 June 2015	296
					2011	---	---	30 June 2014	805
					2010	---	---	30 June 2013	802
					2009	---	100%	30 June 2012	801
Franco Fogliato[3]	---	100%	---	100%	2012	---	---	30 June 2015	147
					2011	---	---	30 June 2014	401
					2010	---	---	30 June 2013	455
					2009	---	100%	30 June 2012	454
Shannan North[4]	---	100%	---	100%	2012	---	---	30 June 2015	147
					2011	---	---	30 June 2014	401
					2010	---	---	30 June 2013	463
					2009	---	100%	30 June 2012	463
Craig White[5]	---	100%	---	100%	2012	---	---	30 June 2015	147
					2011	---	---	30 June 2014	401
					2010	---	---	30 June 2013	536
					2009	---	100%	30 June 2012	535

[1] The maximum total value of grant yet to vest and yet to be expensed. The figures above are calculated as the amount of the grant date fair value of the performance shares and conditional rights and assuming 100% of the award vests.
[2] Ceased employment 12 May 2012.
[3] Receives between 25% to 30% of STI payment as deferred equity.
[4] Receives between 25% to 30% of STI payment as deferred equity.
[5] Receives between 25% to 30% of STI payment as deferred equity.

Details of options

Table: K

Name	Options			
	Year granted	Vested %	Forfeited %	Financial years in which may vest
Derek O'Neill[1]	2009	---	100%	---
Paul Naude	2009	---	---	30 June 2014
Franco Fogliato	2009	---	---	30 June 2014
Shannan North	2009	---	---	30 June 2014
Craig White	2009	---	---	30 June 2014

[1] *Ceased employment 12 May 2012.*

No options were granted or vested during the year ended 30 June 2012.

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Shares under option
Unissued ordinary shares of the Company under option at the date of this report are as follows:

	Number	Grant date	Issue price of shares	Expiry date
Executive Performance and Retention Plan	1,153,176	31 October 2008	$11.08	31 October 2015
Executive Performance and Retention Plan	314,503	24 November 2008	$10.80	24 November 2015
Total	**1,467,679**			

Performance shares and conditional rights
Performance shares and conditional rights awarded under the EPSP and STI deferred equity payment at the date of this report are as follows:

Type of right	Balance	Grant date	Performance/service determination date
Performance Shares	179,891	1 December 2009	30 June 2012
Conditional Rights	43,284	1 December 2009	30 June 2012
Performance Shares	579,896	1 September 2010	1 September 2012
Conditional Rights	165,040	1 September 2010	1 September 2012
Performance Shares	205,968	1 September 2010	30 June 2013
Conditional Rights	51,400	1 September 2010	30 June 2013
Performance Shares – STI	26,585	1 September 2011	30 June 2013
Conditional Rights – STI	10,528	1 September 2011	30 June 2013
Performance Shares	518,020	1 September 2011	1 September 2013
Conditional Rights	211,023	1 September 2011	1 September 2013
Performance Shares	205,968	1 September 2011	30 June 2014
Conditional Rights	51,400	1 September 2011	30 June 2014
Total	**2,249,003**		

Insurance of officers
During the financial year Billabong International Limited paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and all executive officers of the Group against a liability incurred as such a Director, Secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Non-audit services
The Company may decide to employ the auditors on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions and disposals, or where PricewaterhouseCoopers is awarded assignments on a competitive basis.

Details of the amount paid or payable to the auditors (PricewaterhouseCoopers) for non-audit services provided during the year are set out below.

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The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The Directors are satisfied that the provision of non-audit services by the auditors, as set out below, did not compromise the auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditors; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditors own work, acting in a management or decision-making capacity for the consolidated entity, acting as an advocate for the consolidated entity or jointly sharing risks and rewards.

During the year the following fees were paid or payable for services provided by the auditors of the Group, its related practices and non-related audit firms in relation to non-audit services:

	Consolidated	
	2012 $'000	2011 $'000
PricewaterhouseCoopers Australian firm:		
International tax consulting together with separate tax advice on acquisitions and disposals	2,106	670
Due diligence services	389	162
General accounting advice	33	---
Network firms of PricewaterhouseCoopers Australia:		
International tax consulting together with separate tax advice on acquisitions and disposals	1,360	433
Other services	---	104
Total remuneration for non-audit services	3,888	1,369

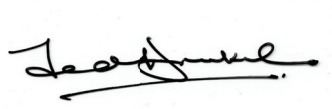
Amounts paid or payable by the consolidated entity for audit and non-statutory audit services are disclosed in note 34 to the full financial statements.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 36.

Rounding of amounts
The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars.

Auditors
PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001.*

This report is made in accordance with a resolution of the Directors.



Ted Kunkel
Chairman

Gold Coast, 27 August 2012

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Auditor's independence declaration

As lead auditor for the audit of Billabong International Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Billabong International Limited and the entities it controlled during the period.



Steven Bosiljevac
Partner
PricewaterhouseCoopers

Brisbane, 27 August 2012

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The Board of Directors is responsible to shareholders for the performance of the Group and believes that high standards of corporate governance underpin the Company's objective of maximising returns to shareholders. The Board is committed to the highest level of governance and endeavours to foster a culture that rewards ethical standards and corporate integrity. As required by the ASX Listing Rules this statement sets out the extent to which the Company has complied with the ASX Corporate Governance Principles and Recommendations (ASX Recommendations) during the financial year ended 30 June 2012. The Board of Directors considers that the Group's corporate governance practices comply with the ASX Recommendations.

PRINCIPLE 1: Lay solid foundations for management and oversight

The Directors are responsible to the shareholders for the performance of the Group in both the short and the longer term. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Company is properly managed.

A summary of matters reserved for the Board are as follows:

- setting objectives, goals and strategic direction for each of the major business units;
- monitoring financial performance including approving business plans, the annual operating and capital expenditure budgets and financial statements;
- establishing, monitoring and evaluating the effectiveness of internal controls, risk management and compliance systems;
- appointing and reviewing the performance of the CEO and senior management;
- approving and monitoring major capital expenditure, capital management, acquisitions, divestments and identified business drivers;
- monitoring areas of significant business risk and ensuring arrangements are in place to manage those risks;
- ensuring conformance to environmental, social and occupational health and safety requirements; and
- reporting to shareholders on performance.

A copy of a Statement of Matters Reserved for the Board is available on the Company's corporate website www.billabongbiz.com.

Beyond those matters, the Board has delegated all authority to achieve the objectives of the Company to the CEO and senior management as set out in the Group's Delegation of Authority document. The Delegation of Authority document is reviewed on an annual basis.

The Board set, on an annual basis, financial and non-financial performance hurdles for the CEO and senior executives and performance is assessed against these performance hurdles. A performance assessment for the CEO and senior executives last took place in August 2012.

Mr. Derek O'Neill ceased employment as Executive Director and Chief Executive Officer of the Company effective 12 May 2012. Ms. Launa Inman commenced employment as Managing Director and Chief Executive Officer on 14 May 2012. The Board identified the need for a different set of executive skills and experience now that retail is a more significant part of the Billabong business. Ms. Inman's skills and depth of experience in retail, supply chain management, finance, strategic planning and brand management were identified by the Board as being important skills for the future management of the Company.

PRINCIPLE 2: Structure the Board to add value

The Board is comprised of both Executive and Non-Executive Directors, with a majority of Non-Executive Directors. The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between Directors with experience and knowledge of the Group and Directors with an external perspective;
- the size of the Board is conducive to effective discussion and efficient decision-making.

Non-Executive Director, Ms. Margaret Jackson, retired at the Company's 2011 Annual General Meeting on 25 October 2011, and did not stand for re-election. Ms. Sally Pitkin was appointed as a Non-Executive Director on 28 February 2012 and in accordance with the Company's Constitution will retire at the 2012 Annual General Meeting, and will stand for election. As announced to the ASX on 21 June 2012, further Board renewal will occur during the year ending 30 June 2013, with Mr. Kunkel indicating his intention to retire in the period between the 2012 Annual General Meeting and the release of the Company's 31 December 2012 half year results in February 2013, and Mr. McDonald indicating his intention to retire at the 2012 Annual General Meeting. The names, skills and experience of the Directors in office at the date of this Statement, and the period of office of each Director, are set out in the Directors' Report on pages 8 to 12.

Independent Professional Advice
Directors and Board Committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required, but this will not be unreasonably withheld. The advice obtained must be made available to all Board members in due course, where appropriate.

Independence of Directors
An assessment of Non-Executive Director's independence is carried out annually or at any other time where the circumstances of a Director change such as to warrant reconsideration.

When determining independence, a director must be a Non-Executive Director and consideration is given to whether the Non-Executive Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or has previously been employed in an executive capacity by the Company, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years been a principal of a material professional advisor or a material consultant to the Company, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or
- has a material contractual relationship with the Company other than as a Director.

Materiality for these purposes is determined on both quantitative and qualitative bases.

The Board assesses independence each year. To enable this process, the Directors must provide all information that may be relevant to the assessment.

Mr. Gordon Merchant is a substantial shareholder of the Company and accordingly he is not considered to be independent of the Company based on the ASX Recommendations. Mr. Merchant is a founder of the Billabong Group and the Board considers that it is in the best interests of all shareholders to have a Director with Mr. Merchant's industry and business expertise and Company history as a member of the Board.

Ms. Colette Paull was previously employed in an executive capacity by the Company and there was not a period of three years between her ceasing employment in 1999 and joining the Board. It is the view of the Board that Ms. Paull exercises her judgement in an independent and unfettered manner bringing independent thought and experience to her role. However having regard to all current circumstances, including the qualitative factors relevant for the determination of director independence, the Board has concluded that Ms. Paull should be classified as a non-independent Non-Executive Director in light of her direct association with Mr. Merchant, a substantial shareholder of the Company.

All other Non-Executive Directors do not have any business interest or other relationship that could materially interfere with the exercise of their independent judgement and their ability to act in the best interests of the Company.

The Chairman of the Company is an independent Non-Executive Director.

The roles of Chairman and CEO are exercised by separate individuals.

The Independence of Directors' Policy is available on the Company's corporate website.

Board Commitment
The Board held 41 Board meetings during the year. The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2012, and the number of meetings attended by each Director, is disclosed in the Directors' Report on page 12.

Board Committees
The Board has established a number of Committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current Committees of the Board are the Nominations, Human Resource and Remuneration and Audit Committees. Each is comprised entirely of Non-Executive Directors. Each Committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the Committee is to operate. All of these charters are reviewed on an annual basis and are available on the Company's corporate website. All matters determined by Committees are submitted to the full Board as recommendations for Board decisions.

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Nominations Committee
Committee Members

Ted Kunkel (Chairman)
Tony Froggatt
Allan McDonald
Gordon Merchant
Colette Paull
Sally Pitkin

The Nominations Committee consists only of Non-Executive Directors and a majority of the members of the Committee are independent. The Chairman of the Committee is a Non-Executive Director. The Nominations Committee met 15 times during the year. Details of these Directors' attendance at Committee meetings are set out in the Directors' Report on page 12.

The main functions of the Committee are to:

- assess periodically the skill set required to discharge competently the Board's duties, having regard to the strategic direction of the Group, and assess the skills currently represented on the Board;
- regularly review and make recommendations to the Board regarding the structure, size and composition of the Board (including the balance of skills, knowledge, expertise and diversity of gender, age, experience and relationships of the Board) and keep under review the leadership needs of the Company, both executive and non-executive;
- identify suitable candidates to fill Board vacancies as and when they arise and nominating candidates for the approval of the Board;
- ensure that, on appointment, all Directors receive a formal letter of appointment, setting out the time commitment and responsibility envisaged in the appointment including any responsibilities with respect to Board Committees;
- oversee appropriate Board succession planning; and
- establish a process for the review of the performance of individual Directors and the Board as a whole.

When a new Director is to be appointed, the Committee reviews the diversity objectives of the Board and the range of skills, experience and expertise required. In the current Board renewal process we have identified skills such as financial strength, public company board experience, international retail skills and specific industry skills relating to either consumer goods, retail, e-commerce, wholesale or supply chain logistics. Additionally consideration is being given to candidates with the potential to fill the roles of Board Chair and Audit Committee Chair.

The Company has engaged independent search consultants to assist with the process. The consultants will be required to provide a short list of candidates with appropriate skills and experience for Board consideration. The full Board will then appoint the most suitable candidate who must submit themselves to shareholders for election at the first Annual General Meeting following their appointment.

New Directors are provided with a letter of appointment setting out the Company's expectations including involvement with committee work, their responsibilities, remuneration, including superannuation and expenses, and the requirement to disclose their interests and any matters which affect the Director's independence. New Directors are also provided with all relevant policies including the Company's Securities Trading Policy, a copy of the Company's Constitution, organisational chart and details of indemnity and insurance arrangements. A formal induction program which covers the operation of the Board and its Committees and financial, strategic, operations and risk management issues is also provided to ensure that Directors have significant knowledge about the Company and the industry within which it operates.

New Directors are advised of the time commitment required of them in order to appropriately discharge their responsibilities as a Director of the Company. Directors are required to confirm that they have sufficient time to meet this requirement. The Nominations Committee Charter is available on the Company's corporate website.

The Nominations Committee reports to, and makes recommendations to, the full Board in relation to each of its functions.

Tenure of Office
Non-Executive Directors have open-ended contracts and tenure is subject to the individual performance of the Director and rotational requirements for re-election by shareholders.

Board Performance
The Board undertakes an annual self-assessment of the performance of the Board as a whole, its Committees, the Chairman, individual Directors and governance processes that support Board work. The Board conducted such an assessment during the 2011-12 reporting period. Performance of individual Directors is assessed against a range of dimensions including the ability of the Director to consistently create shareholder value, to contribute to the development

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of strategies and risk identification, to provide clarity of direction to senior management, to listen to the views of fellow Directors, members of management and key third party stakeholders, as well as provide the time commitment required to ensure the discharge of duties and obligations to the Company. The Chairman meets privately with each Director to discuss individual and collective performance of Directors.

PRINCIPLE 3: Promote ethical and responsible decision-making

Group Code of Conduct
The Company has a Group Code of Conduct which is available in nine languages and draws together all of the Company's practices and policies. The Code reflects the Company's values of integrity, honesty, trust, teamwork, respect and a desire for excellence in everything the Company does. It reinforces the need for Directors, employees, consultants and all other representatives of the Company to always act in good faith, in the Company's best interests and in accordance with all applicable policies, procedures, laws and regulations relevant to the regions in which the Company operates.

The Group Code of Conduct encourages employees to report conduct which they reasonably believe to be corrupt, illegal or unethical on a confidential basis, using the Company's whistleblower program. It applies to all Company employees, contractors and consultants and is designed to protect individuals who, in good faith, report such conduct on a confidential basis, without fear of reprisal, dismissal or discriminatory treatment.

Appropriate training programs on the Group Code of Conduct are undertaken in each of the regions in which the Company operates. A copy of the Group Code of Conduct is available on the Company's corporate website.

The Company has a detailed Securities Trading Policy which regulates dealings by Directors, senior managers and certain employees in shares, options and other securities issued in the Company. The policy prohibits trading from the close of trading on 30 June until after two clear trading days have elapsed from the date upon which the Company gives to the ASX its full year result and from the close of trading on 31 December until after two clear days have elapsed from the date upon which the Company gives to the ASX its half year result.

A copy of the Securities' Trading Policy is available on the Company's corporate website.

Workplace Equity and Diversity Policy
The Company values diversity and recognises the benefits of a diverse workforce. A copy of the Company's Workplace Equity and Diversity Policy can be found on the Company's corporate website.

In financial year 2010-11, the Board established a set of three-year measurable objectives in relation to gender diversity. These objectives, progress towards achieving the objectives and the Workplace Equity and Diversity Policy were reviewed by the Board during 2011-12.

As evidenced in the table below, significant progress was made towards increasing the number of females in Senior Executive positions, with the most notable female appointment in this category being that of Ms. Launa Inman, Managing Director and Chief Executive Officer.

Whilst the number of females at Board level remains the same as 2010-11, it should be noted that Ms. Sally Pitkin was appointed during the year as a Non-Executive Director. The percentage of females in the Company globally remains at 52%.

	Objective – No. of Females	Objective – % of Females	Actual – No. of Females 30 June 2011	Actual – % of Females 30 June 2011	Actual – No. of Females 30 June 2012	Actual – % of Females 30 June 2012
No. of females on the Board*	3	43%	2	33%	2	33%
No. of females in Senior Executive positions**	13	25%	9	17%	12	24%
No. of females in the whole Company	Maintain female representation of not less than 50%		52%		52%	

* 'Board' includes Non-Executive Directors only
**'Senior Executives' include the CEO and the next two levels of management

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The implementation of the five year gender diversity strategy continued in 2011-12 with progress made in the areas of diversity communication, realignment of remuneration differences between males and females, development of key female talent and an increase in the number of females taking up flexible working arrangements.

PRINCIPLE 4: Safeguard integrity in financial reporting

Audit Committee
Committee Members

Allan McDonald (Chairman)
Tony Froggatt
Ted Kunkel
Sally Pitkin

The Board is committed to implementing and maintaining strong corporate governance practices.

As at the date of signing the Directors' Report, all members of the Audit Committee are Non-Executive Directors and are all independent Directors. The Chairman of the Committee is a Non-Executive Director. The Committee may extend an invitation to any person to attend all or part of any meeting of the Committee which it considers appropriate.

All members of the Audit Committee are financially literate. The Chair of the Committee, Allan McDonald holds a Bachelor of Economics Degree from the University of Sydney and is a Fellow of the Australian Society of Certified Practising Accountants, a Fellow of Chartered Secretaries Australia, a Fellow of the Australian Institute of Management and a Fellow of the Australian Institute of Company Directors.

The Audit Committee met three times during the year. Details of these Directors' attendance at Committee meetings are set out in the Directors' Report on page 12.

The main functions of the Committee are to:
- ensure the integrity and reliability of the Company's financial statements and all other financial information published by the Company or released to the market;
- review the scope and results of external and compliance audits;
- assess compliance with applicable legal and regulatory requirements;
- assess the effectiveness of the systems of internal control and risk management;
- review the appointment, remuneration, qualifications, independence and performance of the external auditors and the integrity of the audit process as a whole; and
- monitor and review the nature of non-audit services of external auditors and related fees and ensure it does not adversely impact on auditor independence.

The Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party. The Audit Committee Charter is available on the Company's corporate website.

The Audit Committee reports to, and makes recommendations to the full Board in relation to each of its functions.

In fulfilling its responsibilities, the Audit Committee:
- receives regular reports from management and the external auditors;
- meets with the external auditors at least twice a year, or more frequently if necessary; and
- meets separately with the external auditors at least twice a year without the presence of management.

Certification of Financial Reports
The CEO and CFO state in writing to the Board in each reporting period that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial position and operational results and that they are in accordance with relevant accounting standards. The statements from the CEO and CFO are based on a formal sign-off framework established throughout the Company.

External Auditors
The external auditor (PricewaterhouseCoopers) has declared its independence to the Board through is representations to the Committee and provision of its Statement of Independence to the Board, stating that they have maintained their independence in accordance with the provisions of APES 110 *Code of Ethics for Professional Accountants* and the applicable provisions of the *Corporations Act 2001*. It is PricewaterhouseCoopers' policy to rotate audit engagement partners on listed companies at least every five years, and in accordance with that policy, a new audit engagement partner was introduced for the year ended 30 June 2012.

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The performance of the external auditor is reviewed annually. An analysis of fees paid to the external auditors, including a breakdown of fees for non-audit services, is provided in the Directors' Report and in the notes to the financial statements. The external auditor is requested to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report. A policy on the Selection and Appointment of External Auditors is available on the Company's corporate website.

PRINCIPLES 5 and 6: Make timely and balanced disclosure and respect the rights of shareholders

The Company has an established policy and procedure for timely disclosure of material information concerning the Company. This includes internal reporting procedures to ensure that any material price sensitive information is reported to the Company Secretary in a timely manner.

The Company Secretary has been nominated as the person responsible for communication with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. All information disclosed to the ASX is posted on the Company's corporate website as soon as it is disclosed to the ASX. When analysts are briefed following half year and full year results announcements, the material used in the presentations is released to the ASX prior to the commencement of the briefing. This information is also posted on the Company's corporate website. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market. The Company is committed to ensuring that all stakeholders and the market are provided with relevant and accurate information regarding its activities in a timely manner.

A copy of the Continuous Disclosure Policy is available on the Company's corporate website.

The Company aims to keep shareholders informed of the Company's performance and all major developments in an ongoing manner. Information is communicated to shareholders through:

- the Interim Financial Report and Full Financial Report, Shareholder Review, Notice of Meetings and explanatory materials which are published on the Company's corporate website and distributed to shareholders where nominated;
- the Annual General Meeting, and any other formally convened Company meetings;
- transcripts of analyst briefings held by teleconference for half year and full year results announcements which are posted on the Company's corporate website within 24 hours of the briefing; and
- all other information released to the ASX is posted to the Company's corporate website.

The Company's corporate website maintains, at a minimum, information about the last three years' press releases or announcements. Where possible the Company arranges for advance notification of significant group briefings (including, but not limited to, results announcements) and makes them widely accessible, including through the use of webcasting.

A copy of the Stakeholder Communications Policy is available on the Company's corporate website.

PRINCIPLE 7: Recognise and manage risk

The Board, through the Audit Committee, is responsible for ensuring the adequacy of the Company's risk management and compliance framework, and its system of internal controls and for regularly reviewing its effectiveness.

The Company has implemented a risk management system based on AS/NZS 4360:2004; *Risk Management* standard and the ASX Recommendations. The framework is based around the following risk activities:

- Risk Identification: Identify all significant foreseeable risks associated with business activities in a timely and consistent manner;
- Risk Evaluation: Evaluate risks using an agreed risk assessment criteria;
- Risk Treatment/Mitigation: Develop mitigation plans for risk areas where the residual risk is greater than tolerable risk levels; and
- Risk Monitoring and Reporting: Report risk management activities and risk specific information to appropriate levels of management in a timely manner.

The Board, through the Audit Committee, reviews the Risk Management Policy and framework on a regular basis and satisfies itself that management has in place appropriate systems for managing risk and maintaining internal controls.

The CEO and senior management team are responsible for identifying, evaluating and monitoring risk in accordance with the risk management framework. Senior management are responsible for the accuracy and validity of risk information reported to the Board and also for ensuring clear communication of the Board and senior management's position on risk throughout the Company.

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In particular, at the Board and senior management strategy planning sessions held throughout the year, the CEO and management team reviews and identifies key business and financial risks which could prevent the Company from achieving its objectives.

Additionally a formal risk assessment process is part of each major capital acquisition with a post acquisition review undertaken after 18 to 24 months of major business acquisitions, major capital expenditures or significant business initiatives.

Certification of risk management controls
In conjunction with the certification of financial reports under Principle 4, the CEO and CFO state in writing to the Board each reporting period that:

- the statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Risk Management Policy is available on the Company's corporate website.

Corporate Reporting
In complying with recommendation 7.3, the CEO and CFO have made the following certifications to the Board:

- that the Company's financial reports have been properly maintained, are complete and present, and are a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards; and
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is efficiently and effectively in all material aspects in relation to financial reporting risks.

PRINCIPLE 8: Remunerate fairly and responsibly

Human Resource and Remuneration Committee
Committee Members

Sally Pitkin (Chairman)
Tony Froggatt
Ted Kunkel
Allan McDonald
Gordon Merchant
Colette Paull

The Human Resource and Remuneration Committee consists only of Non-Executive Directors and a majority of the members of the Committee are independent. The Chairman of the Committee is an independent Non-Executive Director. The Committee may extend an invitation to any person to attend all or part of any meeting of the Committee which it considers appropriate.

The Human Resource and Remuneration Committee met 10 times during the year. Details of these Directors' attendance at Committee meetings are set out in the Directors' Report on page 12.

The main functions of the Committee are to assist the Board in establishing remuneration policies and practices which:

(a) enable the Group to attract and retain Executives and Directors (Executive and Non-Executive) who will create sustainable value for shareholders and other stakeholders;
(b) fairly and responsibly reward Executives and Directors having regard to the Group's overall strategy and objectives, the performance of the Group, the performance of the Executive and the general market environment; and
(c) comply with all relevant legislation and regulations including the ASX Listing Rules and *Corporations Act 2001*.

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In particular to:

- review the remuneration for each Executive Director (including base pay, incentive payments, equity awards and retirement or severance benefits), having regard to the Executive remuneration policy and whether in respect of any elements of remuneration any shareholder approvals are required;
- annually appraise the performance of the CEO and provide appropriate Executive development programs;
- review the remuneration (including incentive awards, equity awards and service employment contracts) for the CEO and senior management, to ensure they are consistent with the Executive remuneration policy;
- review Non-Executive Director remuneration with the assistance of external consultants as appropriate;
- review all equity based plans and all cash-based Executive incentive plans;
- engage with and review feedback from shareholders and advisory groups regarding executive remuneration and agree any required actions;
- review the appropriateness of management succession plans;
- review annually the remuneration trends (including major changes in employee benefit structures, philosophies and practices) across the Group in its various regions;
- review policies, reports and performance relating to diversity, conduct and any other Group Human Resource matters; and
- ensure that the Board is aware of all relevant legal requirements regarding disclosure of remuneration.

The Committee reviews and sets key performance indicators (KPI's) relating to financial and non-financial targets for senior management at the commencement of each financial year. These KPI's are evaluated at the end of each reporting period and impact on the discretionary element of the Executive's remuneration. Committee members receive briefings from external remuneration consultants on recent developments on remuneration and related matters.

The Human Resource and Remuneration Committee Charter is available on the Company's corporate website.

The Human Resource and Remuneration Committee reports to, and makes recommendations to the full Board in relation to each of its functions.

Structure of Remuneration

Details of the nature and amount of each element of the remuneration for Executive Directors, Non-Executive Directors and key management personnel of the Company, are set out in the 'Remuneration Report' section of the Directors' Report from pages 13 to 33.

There are no retirement benefits, other than statutory superannuation, for Non-Executive Directors of the Company.

In accordance with group policy, participants in equity-based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements. Details of this policy can be found in the Securities' Trading Policy on the Company's website.

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Billabong International Limited

ABN 17 084 923 946

Contents

	Page
Consolidated income statement	46
Consolidated statement of comprehensive income	47
Consolidated balance sheet	48
Consolidated statement of changes in equity	49
Consolidated cash flow statement	50
Notes to the consolidated financial statements	51
Directors' declaration	133
Independent auditor's report to the members	134

: : FINANCIAL REPORT 30 JUNE 2012

This financial report covers the consolidated entity consisting of Billabong International Limited and its subsidiaries. The financial report is presented in Australian currency.

Billabong International Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Billabong International Limited
1 Billabong Place
Burleigh Heads QLD 4220

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' report on pages 2 – 7, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 27 August 2012. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available on our corporate website at www.billabongbiz.com.

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	Notes	2012 $'000	2011 $'000
Revenue from continuing operations	5	1,444,079	1,558,459
Cost of goods sold	7	(765,313)	(728,298)
Other income	6	27,862	5,105
Selling, general and administrative expenses	7	(644,996)	(564,661)
Other expenses	7	(543,617)	(144,770)
Finance costs	7	(40,973)	(37,151)
Share of net profit after-tax of associate accounted for using the equity method	16	293	---
(Loss)/profit before income tax		(522,665)	88,684
Income tax benefit	9	39,981	3,849
(Loss)/profit from continuing operations		(482,684)	92,533
Profit from discontinued operation after income tax	10	206,003	25,512
(Loss)/profit for the year		(276,681)	118,045
Loss attributable to non-controlling interests		1,032	1,094
(Loss)/profit for the year attributable to the members of Billabong International Limited		(275,649)	119,139
Earnings per share for (loss)/profit from continuing operations attributable to the ordinary equity holders of the Company		Cents	Cents
Basic earnings per share	44	(158.7)	31.1
Diluted earnings per share	44	(158.7)	30.9
Earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company			
Basic earnings per share	44	(90.8)	39.6
Diluted earnings per share	44	(90.8)	39.3

The above consolidated income statement should be read in conjunction with the accompanying notes.

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Consolidated statement of comprehensive income

For the year ended 30 June 2012 : :

	Notes	2012 $'000	2011 $'000
(Loss)/profit for the year		(276,681)	118,045
Other comprehensive income			
Changes in the fair value of cash flow hedges, net of tax	30(b)	4,437	(3,452)
Exchange differences on translation of foreign operations	30(b)	(7,773)	(52,205)
Net investment hedge, net of tax	30(b)	5,299	(10,064)
Other comprehensive income/(expense) for the year, net of tax		1,963	(65,721)
Total comprehensive (expense)/income for the year		(274,718)	52,324
Loss attributable to non-controlling interests		1,032	1,094
Total comprehensive (expense)/income for the year attributable to members of Billabong International Limited		(273,686)	53,418
Total comprehensive (expense)/income for the year attributable to members of Billabong International Limited arises from:			
Continuing operations		(479,689)	27,906
Discontinued operation		206,003	25,512
		(273,686)	53,418

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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Consolidated balance sheet

As at 30 June 2012 : :

	Notes	2012 $'000	2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents	11	317,263	144,858
Trade and other receivables	12	245,035	374,375
Inventories	13	293,201	348,738
Current tax receivables		18,622	15,858
Other	14	24,800	25,025
Total current assets		898,921	908,854
Non-current assets			
Receivables	15	11,560	14,106
Investment accounted for using the equity method	16	134,579	---
Property, plant and equipment	17	160,153	184,852
Intangible assets	18	795,900	1,268,461
Deferred tax assets	19	71,098	35,963
Other	20	7,658	7,729
Total non-current assets		1,180,948	1,511,111
Total assets		2,079,869	2,419,965
LIABILITIES			
Current liabilities			
Trade and other payables	21	320,225	344,034
Borrowings	22	229,088	15,262
Current tax liabilities	23	2,953	1,839
Provisions	24	59,177	28,073
Total current liabilities		611,443	389,208
Non-current liabilities			
Borrowings	25	249,069	597,903
Deferred tax liabilities	26	44,181	46,909
Provisions and other payables	27	80,346	25,003
Deferred payments	28	67,565	164,103
Total non-current liabilities		441,161	833,918
Total liabilities		1,052,604	1,223,126
Net assets		1,027,265	1,196,839
EQUITY			
Contributed equity	29	843,268	678,949
Treasury shares	30(a)	(27,935)	(30,291)
Option reserve	30(b)	9,375	8,814
Other reserves	30(b)	(143,107)	(127,297)
Retained profits	30(c)	346,970	663,289
Capital and reserves attributable to members of Billabong International Limited		1,028,571	1,193,464
Non-controlling interests		(1,306)	3,375
Total equity		1,027,265	1,196,839

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

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	Notes	Attributable to members of Billabong International Limited				Non-controlling interests $'000	Total equity $'000
		Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000		
Balance at 1 July 2010		671,761	(85,292)	630,290	1,216,759	820	1,217,579
Profit for the year		---	---	119,139	119,139	(1,094)	118,045
Other comprehensive income		---	(65,721)	---	(65,721)	---	(65,721)
Total comprehensive income for the year		---	(65,721)	119,139	53,418	(1,094)	52,324
Transactions with equity holders in their capacity as equity holders:							
Dividend reinvestment plan issues	29(b)	7,188	---	---	7,188	---	7,188
Dividends paid	31	---	---	(86,140)	(86,140)	---	(86,140)
Treasury shares purchased by employee share plan trusts	30(a)	---	(4,446)	---	(4,446)	---	(4,446)
Option reserve in respect of employee share plan	30(b)	---	5,892	---	5,892	---	5,892
Redemption option for non-controlling derivative	30(b)	---	793	---	793	---	793
Non-controlling interests on acquisition of subsidiary	38	---	---	---	---	3,649	3,649
		7,188	2,239	(86,140)	(76,713)	3,649	(73,064)
Balance at 30 June 2011		678,949	(148,774)	663,289	1,193,464	3,375	1,196,839
Loss for the year		---	---	(275,649)	(275,649)	(1,032)	(276,681)
Other comprehensive income		---	1,963	---	1,963	---	1,963
Total comprehensive income for the year		---	1,963	(275,649)	(273,686)	(1,032)	(274,718)
Transactions with equity holders in their capacity as equity holders:							
Transactions with non-controlling interests	29(g)	3,960	(311)	---	3,649	(3,649)	---
Rights issue, net of transaction costs	29(b)	152,714	---	---	152,714	---	152,714
Dividend reinvestment plan issues	29(b)	7,645	---	---	7,645	---	7,645
Dividends paid	31	---	---	(40,670)	(40,670)	---	(40,670)
Treasury shares purchased by employee share plan trusts	30(a)	---	(2,665)	---	(2,665)	---	(2,665)
Option reserve in respect of employee share plan	30(b)	---	5,582	---	5,582	---	5,582
Redemption option for non-controlling derivative	30(b)	---	(17,462)	---	(17,462)	---	(17,462)
		164,319	(14,856)	(40,670)	108,793	(3,649)	105,144
Balance at 30 June 2012		843,268	(161,667)	346,970	1,028,571	(1,306)	1,027,265

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

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Consolidated cash flow statement

For the year ended 30 June 2012 : :

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,746,868	1,773,303
Payments to suppliers and employees (inclusive of GST)		(1,622,947)	(1,673,100)
		123,921	100,203
Interest received		1,923	2,287
Other revenue		3,334	2,264
Finance costs		(34,869)	(35,688)
Income taxes paid		(15,420)	(44,730)
Net cash inflow from operating activities	42	78,889	24,336
Cash flows from investing activities			
Payments for purchase of subsidiaries and businesses, net of cash acquired	38	(84,232)	(215,064)
Payments for property, plant and equipment		(40,378)	(43,244)
Payments for intangible assets		(15,156)	(9,126)
Proceeds from sale of business, net of cash divested and transaction costs	10	274,136	---
Proceeds from sale of property, plant and equipment		711	499
Net cash inflow/(outflow) from investing activities		135,081	(266,935)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		157,752	---
Payments for treasury shares held by employee share plan trusts		(2,665)	(4,446)
Proceeds from borrowings		987,083	956,023
Repayment of borrowings		(1,143,991)	(671,674)
Dividends paid	31	(39,271)	(78,952)
Net cash (outflow)/inflow from financing activities		(41,092)	200,951
Net increase in cash and cash equivalents		172,878	(41,648)
Cash and cash equivalents at the beginning of the year		144,425	208,742
Effects of exchange rate changes on cash and cash equivalents		(1,639)	(22,669)
Cash and cash equivalents at the end of the year	11	315,664	144,425

Financing arrangements 25
Non-cash investing and financing activities 43

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

Contents of the notes to the consolidated financial statements

		Page
Note 1.	Summary of significant accounting policies	52
Note 2.	Financial risk management	66
Note 3.	Critical accounting estimates and judgements	73
Note 4.	Segment information	74
Note 5.	Revenue	78
Note 6.	Other income	78
Note 7.	Expenses	79
Note 8.	Significant items	80
Note 9.	Income tax expense	82
Note 10.	Discontinued operation	83
Note 11.	Current assets – Cash and cash equivalents	85
Note 12.	Current assets – Trade and other receivables	86
Note 13.	Current assets – Inventories	87
Note 14.	Current assets – Other	87
Note 15.	Non-current assets – Receivables	88
Note 16.	Non-current assets – Investment accounted for using the equity method	88
Note 17.	Non-current assets – Property, plant and equipment	89
Note 18.	Non-current assets – Intangible assets	90
Note 19.	Non-current assets – Deferred tax assets	94
Note 20.	Non-current assets – Other	94
Note 21.	Current liabilities – Trade and other payables	95
Note 22.	Current liabilities – Borrowings	95
Note 23.	Current liabilities – Current tax liabilities	96
Note 24.	Current liabilities – Provisions	96
Note 25.	Non-current liabilities – Borrowings	97
Note 26.	Non-current liabilities – Deferred tax liabilities	99
Note 27.	Non-current liabilities – Provisions and other payables	100
Note 28.	Deferred payments	100
Note 29.	Contributed equity	101
Note 30.	Treasury shares, reserves and retained profits	103
Note 31.	Dividends	105
Note 32.	Derivative financial instruments	106
Note 33.	Key management personnel disclosures	109
Note 34.	Remuneration of auditors	113
Note 35.	Contingencies	114
Note 36.	Commitments	114
Note 37.	Related party transactions	116
Note 38.	Business combinations	117
Note 39.	Subsidiaries	120
Note 40.	Deed of cross guarantee	121
Note 41.	Events occurring after the balance sheet date	123
Note 42.	Reconciliation of loss/profit for the year to net cash inflow from operating activities	123
Note 43.	Non-cash investing and financing activities	123
Note 44.	Earnings per share	124
Note 45.	Share-based payments	125
Note 46.	Parent entity financial information	132

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Note 1. Summary of significant accounting policies

The principal accounting policies adopted 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. The financial statements are for the consolidated entity consisting of Billabong International Limited and its subsidiaries (the Group or consolidated entity).

(a) Basis of preparation

The general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Group is a for-profit entity for the purpose of preparing the financial report.

Compliance with IFRS
The financial report of the consolidated entity also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Early adoption of standards
The Group has elected not to early apply accounting standards that are not applicable to the accounting period ended 30 June 2012.

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss and certain classes of property, plant and equipment.

Critical accounting estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Principles of consolidation

(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Billabong International Limited (the Company or parent entity) as at 30 June 2012 and the results of all subsidiaries for the year then ended.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Investments in subsidiaries are accounted for at cost in the separate financial statements of Billabong International Limited.

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Note 1. Summary of significant accounting policies (continued)

(ii) Employee Share Trust

The Group has formed trusts to administer the Group's Executive Performance Share Plan. The trusts are consolidated, as the substance of the relationship is that the trusts are controlled by the Group.

Shares held by the Billabong Executive Performance Share Plan – Australia trust and the Billabong Executive Performance Share Plan trust are disclosed as treasury shares and deducted from equity.

(iii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes Goodwill identified on acquisition (refer to note 16).

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

(iv) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interest to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to members of Billabong International Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value 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, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group 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.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer (CEO).

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group'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 Australian dollars, which is the Company's functional and presentation currency.

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Note 1. Summary of significant accounting policies (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at 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, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges, or are attributable to part of the net investment in a foreign operation.

(iii) 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 rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average monthly exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

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.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

(i) Sale of goods

Revenue from sale of goods is recognised when it can be reliably measured, the significant risks and rewards of ownership have passed to, and the goods been accepted by, the customer and collectability of the related receivable is probable.

Sales terms determine when risks and rewards are considered to have passed to the customer. Given that sales terms vary between regions and customers the Group recognises some wholesale sales on shipment and others on delivery of goods to the customer, whichever is appropriate. The Group recognises retail sales at the time of sale of the goods to the customer.

(ii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount 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 over the discounted period.

(iii) Royalty income

Royalty income is recognised as it accrues.

(iv) Agent commissions

Revenue earned from the sourcing of product on behalf of licensees is recognised net of the cost of the goods, reflecting the sourcing commission only. Sourcing commission is recognised when the goods are provided.

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Note 1. Summary of significant accounting policies (continued)

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates 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.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the 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 income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance lease is depreciated over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 36). 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.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

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Note 1. Summary of significant accounting policies (continued)

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Deferred or contingent consideration – acquisitions pre 1 July 2009
When deferred or contingent consideration payable becomes probable and the amount can be reliably measured the Group brings it to account. Where settlement of any part of cash consideration is deferred and recognised as a non-current liability, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group's risk-free rate.

Deferred or contingent consideration – acquisitions post 1 July 2009
Where settlement of any part of cash consideration is deferred or contingent on future events, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group's risk-free rate. Amounts classified as a payable are subsequently remeasured to fair value with changes in fair value recognised in the income statement.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment charge 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (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.

No amortisation is provided against the carrying value of purchased brands on the basis that these assets are considered to have an indefinite useful life.

Key factors taken into account in assessing the useful life of brands are:

- The brands are well established and protected by trademarks across the globe which are generally subject to an indefinite number of renewals upon appropriate application; and
- There are currently no legal, technical or commercial obsolescence factors applying to the brands or the products to which they attach which indicate that the life should be considered limited.

(j) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

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Note 1. Summary of significant accounting policies (continued)

(k) Trade receivables

All trade receivables are recognised at the date they are invoiced, initially at fair value and subsequently measured at amortised cost, and are principally on 30 day terms. They are presented as current assets unless collection is not expected for more than 12 months after the balance sheet date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the 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 impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment charge is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

Other receivables is comprised of amounts receivable under a factoring arrangement (refer note 12) and amounts due as a result of transactions outside the normal course of trading.

(l) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value.

(i) Raw materials
Cost is determined using the first-in, first-out (FIFO) method and standard costs approximating actual costs.

(ii) Work in progress and finished goods
Cost is standard costs approximating actual costs including direct materials, direct labour and an allocation of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost also includes the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases.

(m) Discontinued operations

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

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Note 1. Summary of significant accounting policies (continued)

(n) Investments and other financial assets

Classification
The Group classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) 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 which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 12) and receivables (note 15) in the balance sheet.

Recognition and derecognition
Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement
Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within other income or other expenses in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

Details on how the fair value of financial instruments is determined are disclosed in note 2.

Impairment
The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are 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 charge on that financial asset previously recognised in profit and loss – is reclassified from equity and recognised in the income statement. Impairment charges recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

Assets carried at amortised cost
For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Impairment testing of trade receivables is described in note 1(k).

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Note 1. Summary of significant accounting policies (continued)

(o) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

– hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
– hedges of a net investment in a foreign operation (net investment hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 32. Movements in the hedging reserve in shareholders' equity are shown in note 30(b). The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expenses.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

(ii) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expenses.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in other income or other expenses.

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Note 1. Summary of significant accounting policies (continued)

(p) Property, plant and equipment

Land and buildings are shown at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

– Buildings 20-40 years
– Owned and leased plant and equipment 3-20 years
– Furniture, fittings and equipment 3-20 years

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 (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds an asset's with carrying amount. These are included in the income statement.

(q) Intangible assets

(i) Goodwill
Goodwill is measured as described in note 1(h). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment charges. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is 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 the goodwill arose.

(ii) Brands
Expenditure incurred in developing or enhancing brands is expensed as incurred. Brands are shown at historical cost.

Brands have a limited legal life, however the Group monitors global expiry dates and renews registrations where required. Brands recorded in the financial statements are not currently associated with products which are likely to become commercially or technically obsolete. Accordingly, the Directors are of the view that brands have an indefinite life.

Brands are tested annually for impairment and carried at cost less accumulated impairment charges.

(iii) Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated contractual lives (three to five years). Costs associated with developing or maintaining computer software programs are expensed as incurred.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the balance sheet date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

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Note 1. Summary of significant accounting policies (continued)

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(t) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(u) Provisions

Provisions, other than for employee entitlements, are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(v) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as other payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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Note 1. Summary of significant accounting policies (continued)

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(iv) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(w) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

(x) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(y) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(z) Employee and executive share plans

Equity-based compensation benefits are provided to employees via the Billabong Executive Performance Share Plan and the Executive Performance and Retention Plan.

Billabong Executive Performance Share Plan

Share-based compensation benefits are provided to the executive team via the Billabong Executive Performance Share Plan. Information relating to this Plan is set out in note 45.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefit expense with a corresponding increase in equity when the employees become entitled to the shares.

The fair value of equity instruments granted under the Billabong Executive Performance Share Plan is recognised as an employee benefit expense over the period during which the employees become unconditionally entitled to the instruments. There is a corresponding increase in equity, being recognition of an option reserve. Once the employees become unconditionally entitled to the instruments the option reserve is set-off against the treasury shares vested. The fair value of equity instruments granted is measured at grant date and is determined by reference to the Billabong International Limited share price at grant date, taking into account the terms and conditions upon which the rights were granted.

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Note 1. Summary of significant accounting policies (continued)

To facilitate the operation of the Billabong Executive Performance Share Plan third party trustees are used to administer the trusts which hold shares allocated under the Plan. CPU Share Plans Pty Ltd and CRS Nominees Ltd are third party trustees for the Billabong Executive Performance Share Plan – Australia trust (for Australian employees) and the Billabong Executive Performance Share Plan trust (for non-Australian employees) respectively. As the trusts were established by the Company for the benefit of the consolidated entity, through the provision of a component of the consolidated entities executive remuneration, the trusts are consolidated in the consolidated entity.

Current equity based instruments granted under the Billabong Executive Performance Share Plan include performance shares and conditional rights. Both performance shares and conditional rights are subject to performance hurdles. Through contributions to the trusts the consolidated entity purchases shares of the Company on market to underpin performance shares and conditional rights issued. The shares are recognised in the balance sheet as treasury shares. Treasury shares are excluded from the weighted average number of shares used as the denominator for determining basic earnings per share and net tangible asset backing per share. The performance shares and conditional rights of the Billabong Executive Performance Share Plan are treated as potential ordinary shares for the purposes of diluted earnings per share.

The Group incurs expenses on behalf of the trusts. These expenses are in relation to administration costs of the trusts and are recorded in the income statement as incurred.

Billabong Executive Performance and Retention Plan
Share-based compensation benefits are also provided to the executive team via the Billabong Executive Performance and Retention Plan. Information relating to this Plan is set out in note 45.

The fair value of the options granted under the Billabong Executive Performance and Retention Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the executive team becomes unconditionally entitled to the options.

The fair value at grant date is independently determined using the Monte-Carlo simulation valuation technique that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

(aa) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

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Note 1. Summary of significant accounting policies (continued)

(bb) Parent entity financial information

The financial information for the parent entity, Billabong International Limited, disclosed in note 46 has been prepared on the same basis as the consolidated financial report, except as set out below.

Investments in subsidiaries
Investments in subsidiaries are accounted for at cost in the financial report of Billabong International Limited. Dividends received from subsidiaries are recognised in the parent entity's income statement rather than being deducted from the carrying amount of these investments.

Tax consolidation legislation
Billabong International Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002.

The head entity, Billabong International Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Billabong International Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Billabong International Limited for any current tax payable assumed and are compensated by Billabong International Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Billabong International Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Financial guarantees
Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

(cc) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(dd) Rounding of amounts

The Company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars.

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Note 1. Summary of significant accounting policies (continued)

(ee) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

(i) *AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective for annual reporting periods beginning on or after 1 January 2013)*
AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is still to assess its full impact. The Group has not yet decided when to adopt AASB 9.

(ii) *AASB 13 Fair value measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)*
AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

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Note 2. Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. Derivatives are used exclusively for hedging purposes and not for trading or speculative purposes.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollars.

Foreign currency transaction risk arises when assets and liabilities, and forecasted purchases and sales are denominated in a currency other than the functional currency of the respective entities. As sales are mainly denominated in the respective local currency which is the functional currency, the major transactional exposure is in relation to inventory purchases, other than for the United States of America, which are typically denominated in United States Dollars. The risk is measured using sensitivity analysis and cash flow forecasting.

Forward contracts are used to manage foreign exchange risk. The Group's Risk Management Policy is for each region to hedge greater than 80% of forecast foreign denominated inventory purchases for the upcoming season. Further hedges can be executed following receipt of customer orders. All hedges of projected purchases qualify as "highly probable" forecast transactions for hedge accounting purposes. The Group has, as outlined in note 32, forward exchange contracts designated as cash flow hedges.

The carrying amounts of the Group's financial assets and liabilities that are denominated in Australian Dollars and significant foreign currency (figures in Australian Dollars), are set out below:

	Notes	**2012 $'000**	2011 $'000
Australian Dollars			
Cash and cash equivalents	11	170,159	23,243
Trade and other receivables	12, 15	39,055	51,178
Borrowings	22, 25	(84,175)	(104,777)
Trade and other payables	21	(56,750)	(35,515)
		68,289	(65,871)
United States Dollars			
Cash and cash equivalents	11	104,172	82,308
Trade and other receivables	12, 15	72,682	122,467
Borrowings	22, 25	(225,203)	(423,897)
Trade and other payables	21	(163,244)	(202,187)
		(211,593)	(421,309)
European Euros			
Cash and cash equivalents	11	11,417	10,280
Trade and other receivables	12, 15	55,127	93,803
Borrowings	22, 25	(45,666)	(31,524)
Trade and other payables	21	(38,331)	(52,711)
		(17,453)	19,848
Other			
Cash and cash equivalents	11	31,515	29,027
Trade and other receivables	12, 15	89,731	121,033
Borrowings	22, 25	(123,113)	(52,967)
Trade and other payables	21	(61,900)	(53,621)
		(63,767)	43,472

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Note 2. Financial risk management (continued)

(a) Market risk (continued)

Sensitivity analysis
The majority of the carrying amounts of the Group's financial assets and liabilities are denominated in the functional currency of the relevant subsidiary and thus there is no foreign exchange exposure. The majority of foreign exchange exposure as at 30 June 2012 relates to intra-group monetary assets or liabilities, which whilst these intra-group assets or liabilities are eliminated on group consolidation, there is an exposure at balance date which is recognised in the consolidated income statement as unrealised foreign exchange gains or losses. This is because the monetary item represents a commitment to convert one currency into another and exposes the Group to a gain or loss through currency fluctuations.

At 30 June 2012 had the Australian Dollar as at 30 June 2012 weakened / strengthened by 10% against the United States Dollar with all other variables held constant, post-tax profit for the year would have been $4.6 million higher / $3.8 million lower (2011: $1.4 million higher / $1.1 million lower), mainly as a result of intra-group monetary assets or liabilities as at 30 June 2012. Profit is more sensitive to movements in the Australian Dollar / United States Dollar in 2012 than 2011 because of an increased net amount of intra-group monetary assets and liabilities as at 30 June 2012 compared with as at 30 June 2011. Equity (excluding the effect to the Foreign Currency Translation Reserve of translating the United States of America operations' net assets/equity to Australian Dollars) would have been $6.8 million higher / $6.2 million lower (2011: $5.0 million higher / $5.1 million lower). The Group's exposure to other foreign exchange movements as at 30 June 2012 is not material.

(ii) Cash flow interest rate risk
Other than cash deposits at call, the Group has no significant interest-bearing assets and therefore the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. In certain circumstances the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

As at the reporting date, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	2012 $'000	2011 $'000
Bank loans, syndicated facility, drawdown facility and cash advance facilities	470,149	611,924
Interest rate swaps (notional principal amount)	---	(178,571)
Net exposure to interest rate risk	470,149	433,353

An analysis by maturities is provided in (c) below and a summary of the terms and conditions is in note 25.

Group sensitivity analysis
At 30 June 2012 if interest rates had changed by - / + 50 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been $1.6 million lower / higher (2011: $2.1 million lower / higher). Equity would have been $1.6 million lower / higher (2011: $3.6 million lower / higher) mainly as a result of an increase / decrease in the fair value of the cash flow hedges as at 30 June 2012.

(b) Credit risk

Credit risk represents the loss that would be recognised if a counterparty failed to perform as contracted. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

The Group has no significant concentrations of credit risk.

Derivative counterparties and cash deposits are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

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Note 2. Financial risk management (continued)

(b) Credit risk (continued)

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their financial position, past experience and other factors. Credit limits are set for each individual customer in accordance with parameters set by the Board. These credit limits are regularly monitored. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Sales to retail customers are settled in cash or using major credit cards, mitigating credit risk.

Credit risk further arises in relation to financial guarantees given to certain parties. Such guarantees are only provided in exceptional circumstances and are subject to specific Board approval. Refer to note 46.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. The vast majority of cash at bank and short-term bank deposits are held with banks with at least a credit rating of 'A'. Derivative counterparties have a credit rating of at least 'A'. The vast majority of trade receivables are with existing customers (who have been customers for at least six months) with no defaults in the past (for further information about impaired trade receivables and past due but not impaired receivables refer to note 12).

(c) Liquidity risk

Due to the financial liabilities within the Group, the Group is exposed to liquidity risk, being the risk of encountering difficulties in meeting such obligations. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to closeout market positions. At the end of the reporting period the Group held deposits at call of $20.2 million (2011: $3.2 million). Due to the dynamic nature of the underlying businesses, the Group aims at maintaining flexibility in funding by keeping committed credit lines available. Refer to note 25(d) for information in regards to the Group's financing arrangements. Refer to note 29(i) for information in regards to the Group's capital management strategy.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising the undrawn borrowing facilities) and cash and cash equivalents (note 11) on the basis of expected cash flows. This is generally carried out at a local level in the operating companies of the Group in accordance with practice and limits set by the Group. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the Group's liquidity management policy involves monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

The table below analyses the Group's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For net settled and gross settled derivatives the cash flows have been estimated using spot interest rates applicable at the reporting date.

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Note 2. Financial risk management (continued)

(c) Liquidity risk (continued)

2012	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount (assets) / liabilities
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Non-interest bearing trade and other payables	318,430	---	---	---	---	318,430	318,430
Fixed rate debt	802	747	1,494	4,482	1,120	8,645	8,008
Variable rate debt	236,965	7,779	37,439	218,615	---	500,798	470,149
Net variable rate liabilities	236,965	7,779	37,439	218,615	---	500,798	470,149
Less: Cash (i)	(317,263)	---	---	---	---	(317,263)	(317,263)
Net variable rate liquidity position	(80,298)	7,779	37,439	218,615	---	183,535	152,886
Gross settled derivatives (forward exchange contracts)							
- (inflow)	(62,975)	(22,769)	---	---	---	(85,744)	(1,495)
- outflow	61,603	22,761	---	---	---	84,364	---
	(1,372)	(8)	---	---	---	(1,380)	(1,495)

Syndicated facility
As at 30 June 2011 the Group had an unsecured Syndicated Revolving Multi-Currency Facility with a limit of US$790.0 million (US$395.0 million due for roll-over on or prior to 28 July 2013 with the remaining US$395.0 million due for roll-over on or prior to 28 July 2014).

On 30 January 2012 the Group renegotiated the syndicated facility in conjunction with the partial sale of the Nixon business and agreed that the net consideration received in connection with this transaction be applied towards a partial repayment and cancellation of this facility.

On 20 June 2012 the Group renegotiated the syndicated facility in conjunction with the equity raising announced on 21 June 2012 and agreed that upon receipt of the equity raising proceeds, the net proceeds be applied towards a further partial repayment and cancellation of this facility.

As at 30 June 2012 the Group had an unsecured Syndicated Revolving Multi-Currency Facility with a limit of US$577.0 million (US$182.0 million due for roll-over on or prior to 28 July 2013 with the remaining US$395.0 million due for roll-over on or prior to 28 July 2014).

In June 2012, the Group renegotiated its banking covenants and undertook to partially repay and partially cancel the Syndicated Revolving Multi-Currency Facility with the proceeds received from the rights issue announced on 21 June 2012. As a result of this commitment to repay these borrowings the amount has been classified as current.

Following receipt of the equity raising proceeds, the Group finalised the partial repayment and partial cancellation of this facility. As at 1 August 2012 the Group had an unsecured Syndicated Revolving Multi-Currency Facility with a limit of US$384.5 million, which is due for roll-over on or prior to 28 July 2014.

Drawdown facility
At 30 June 2011 the Group had a US$100.0 million unsecured multi-currency drawdown facility which was due for roll-over on or prior to 28 July 2013.

On 30 January 2012 the Group renegotiated the drawdown facility in conjunction with the partial sale of the Nixon business and agreed that the net consideration received in connection with this transaction be applied towards a partial repayment and cancellation of this facility on a pro rata basis with the reduction in the syndicated facility detailed above.

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Note 2. Financial risk management (continued)

(c) Liquidity risk (continued)

Drawdown facility (continued)

On 20 June 2012 the Group renegotiated the drawdown facility in conjunction with the equity raising announced on 21 June 2012 and agreed that upon receipt of the equity raising proceeds, the net proceeds be applied towards a further partial repayment and cancellation of this facility on a pro rata basis with the reduction in the Syndicated Revolving Multi-Currency Facility detailed above.

At 30 June 2012 the Group has a US$78.0 million unsecured multi-currency drawdown facility which is due for roll-over on or prior to 28 July 2013.

Following receipt of the equity raising proceeds, the Group finalised the partial repayment and partial cancellation of this facility. As at 1 August 2012 the Group had an unsecured multi-currency drawdown facility with a limit of US$52.0 million, which is due for roll-over on or prior to 28 July 2014.

2011	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount (assets) / liabilities
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Non-interest bearing trade and other payables	340,671	---	---	---	---	340,671	340,671
Fixed rate debt	667	600	16	---	---	1,283	1,241
Variable rate debt	26,147	13,124	25,067	615,250	---	679,588	611,924
Net settled derivatives (interest rate swaps)	703	1,046	2,093	2,249	---	6,091	2,371
Net variable rate liabilities	26,850	14,170	27,160	617,499	---	685,679	614,295
Less: Cash (i)	(144,858)	---	---	---	---	(144,858)	(144,858)
Net variable rate liquidity position	(118,008)	14,170	27,160	617,499	---	540,821	469,437
Gross settled derivatives (forward exchange contracts)							
- (inflow)	(90,967)	(28,417)	---	---	---	(119,384)	---
- outflow	93,621	29,269	---	---	---	122,890	2,812
	2,654	852	---	---	---	3,506	2,812

(i) Cash

Cash is considered in managing the Group's exposure to liquidity and interest rate risks. As at 30 June 2012 the Group held a significant cash balance of $317.3 million (2011: $144.9 million). In order to optimise the cost of funds, the Group has a cash pooling arrangement wherein a portion of the Group's cash is notionally offset on a daily basis against the outstanding debt drawn under the drawdown facility for the purposes of calculating interest expense payable. At 30 June 2012 the amount of cash included in the notional pooling was $31.3 million (30 June 2011: $18.0 million).

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Note 2. Financial risk management (continued)

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2012 and 30 June 2011.

At 30 June 2012	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Forward exchange contracts – cash flow hedges	---	1,879	---	1,879
Total assets	---	1,879	---	1,879
Liabilities				
Forward exchange contracts – cash flow hedges	---	384	---	384
Contingent consideration	---	---	25,558	25,558
Total liabilities	---	384	25,558	25,942

At 30 June 2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Forward exchange contracts – cash flow hedges	---	551	---	551
Total assets	---	551	---	551
Liabilities				
Forward exchange contracts – cash flow hedges	---	3,363	---	3,363
Interest rate swap contracts – cash flow hedges	---	2,371	---	2,371
Contingent consideration	---	---	97,097	97,097
Total liabilities	---	5,734	97,097	102,831

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1. The Group does not hold any of these financial instruments at 30 June 2012 or 30 June 2011.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise derivative financial instruments.

In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3. This is the case for contingent consideration.

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Note 2. Financial risk management (continued)

(d) Fair value measurements (continued)

The following table presents the changes in level 3 instruments for the years ended 30 June 2012 and 30 June 2011:

Changes in contingent consideration

	2012 $'000	2011 $'000
Balance 1 July	97,097	158,380
Transfer into level 3	---	36,476
Transfer out of level 3 as no longer considered contingent	(53,446)	(53,708)
Other increases/(decreases)	2,763	(20,921)
Gains recognised in other income (note 6)	(22,522)	(1,011)
Exchange losses/(gains)	1,666	(22,119)
Balance 30 June	25,558	97,097
Total gains for the period included in other income that relate to liabilities held at the end of the reporting period	22,522	1,011

The fair value of the contingent consideration is calculated at present value taking into account the latest Board approved forecasts. A change to the discount rate used to calculate contingent consideration would not change the fair value significantly. Refer to note 28 and 35 for further information.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of borrowings is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates that are available to the Group for similar financial instruments. Refer to note 15(b) and 25(f) for further information.

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Note 3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill and indefinite life intangibles
The Group tests annually whether goodwill and indefinite life intangibles have suffered any impairment and if any intangibles cease to have an indefinite life, in accordance with the accounting policy stated in note 1(i). The recoverable amounts of cash-generating units (CGU) have been determined based on value-in-use calculations (VIU). These calculations require the use of estimates and judgements, in particular the achievement of forecast growth rates which are determined through a Board approved budgeting process. Assumptions used in impairment testing are detailed in note 18.

If the VIU of a CGU is lower than its carrying amount, then the CGU's fair value less costs to sell (FVLCTS) is determined as AASB 136 requires the recoverable amount of a CGU to be the higher of VIU and FVLCTS. In applying the FVLCTS approach, the recoverable amount of a CGU is assessed using market based valuation techniques such as discounted cash flow analysis, comparable transactions and observable trading multiples. Assumptions used in impairment testing are detailed in note 18.

Business combinations and goodwill
The Group has made a number of acquisitions during the prior year. Judgements and estimates are made in respect of the measurement of the provisional and final fair values of assets and liabilities acquired and the considerations transferred. The portion of the purchase price not allocated to assets and liabilities has been attributed to goodwill.

Deferred or contingent consideration – acquisitions pre 1 July 2009
In relation to certain acquisitions that have been made by the Group pre 1 July 2009, deferred or contingent consideration may be payable in cash if certain specific conditions are achieved. When the deferred or contingent consideration payable becomes probable and the amount can be reliably measured, the Group brings it to account (refer note 28) and the amount of the contingent liability is disclosed in note 35 if applicable. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange (refer note 35). The discount rate used is the Group's risk-free rate. The calculation of the payable for each acquisition requires the use of estimates and judgements which are reviewed at each reporting period.

Deferred or contingent consideration – acquisitions post 1 July 2009
In relation to certain acquisitions that have been made by the Group post 1 July 2009, deferred or contingent consideration may be payable in cash if certain specific conditions are achieved. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange (refer note 35). The discount rate used is the Group's risk-free rate. Amounts classified as a payable are subsequently remeasured to fair value with changes in fair value recognised in the income statement. The calculation of the payable for each acquisition requires the use of estimates and judgements which are reviewed at each reporting period.

Taxation
The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Onerous Lease/Contract and Restructuring provisions
During the year the Group initiated a strategic capital structure review for the business. Judgments and estimates are made in respect of the measurement of provisions for costs associated with the execution of initiatives arising from this review.

During the year the Group entered into certain contracts which are considered to be onerous. Judgments and estimates are made in respect of the measurement of provisions for costs associated with the execution of these contracts.

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Note 4. Segment information

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by the CEO. The results of the operating segments are analysed and strategic decisions made as to the future operations of the segment. This review is also used to determine how resources will be allocated across the segments.

The CEO considers the business from a geographic perspective and has identified three reportable segments being Australasia, Americas and Europe. The CEO monitors the performance of these geographic segments separately. Each segment's areas of operation include the wholesaling and retailing of surf, skate and snow apparel and accessories.

The geographic segments are organised as below:

Australasia
This segment includes Australia, New Zealand, Japan, South Africa, Singapore, Malaysia, Indonesia, Thailand, South Korea and Hong Kong.

Americas
This segment includes the United States of America, Canada, Brazil, Peru and Chile.

Europe
This segment includes Austria, Belgium, the Czech Republic, England, France, Germany, Italy, Luxembourg, the Netherlands and Spain.

Rest of the World
This segment relates to royalty receipts from third party operations.

Segment Earnings Before Interest, Taxes, Depreciation, Amortisation and Impairment (EBITDAI) excludes inter-company royalties and sourcing fees and includes an allocation of global overhead costs (which include corporate overhead, international advertising and promotion costs, central sourcing costs and foreign exchange movements).

The geographical segment assets exclude deferred tax assets and derivative assets.

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Note 4. Segment information (continued)

(b) Segment information provided to the CEO

The segment information provided to the CEO for the reportable segments for the year ended 30 June 2012 is as follows:

The below shows the total of results from continuing and discontinued operations. For a breakdown of continuing and discontinued operations, refer to (c (iii)) below.

2012	Australasia $'000	Americas $'000	Europe $'000	Other* $'000	Rest of the World $'000	Total $'000
Total from continuing and discontinued operations						
Sales to external customers	522,265	750,307	278,064	---	---	1,550,636
Third party royalties	---	---	---	---	2,608	2,608
Total segment revenue	522,265	750,307	278,064	---	2,608	1,553,244
EBITDAI	(22,471)	(39,250)	(12,277)	201,741	2,608	130,351
Less: depreciation and amortisation						(47,691)
Less: impairment charge						(342,955)
Less: net interest expense						(27,883)
Loss before income tax						(288,178)
Segment assets	2,899,228	761,064	228,098	---	---	3,888,390
Elimination						(1,881,498)
Unallocated assets:						
Deferred tax						71,098
Derivative assets						1,879
Total assets						2,079,869
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	25,427	19,173	20,504	---	---	65,104

***** Included in the 'Other' segment for the year ended 30 June 2012 are the following items:

	2012 $'000
Share of net profit after-tax of associate accounted for using the equity method (note 16)	293
Gain on sale, net of transaction costs before income tax (note 10)	201,448
	201,741

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Note 4. Segment information (continued)

(b) Segment information provided to the CEO (continued)

2011	Australasia $'000	Americas $'000	Europe $'000	Rest of the World $'000	Total $'000
Total from continuing and discontinued operations					
Sales to external customers	501,904	843,737	337,627	---	1,683,268
Third party royalties	---	---	---	2,211	2,211
Total segment revenue	501,904	843,737	337,627	2,211	1,685,479
EBITDAI	55,225	80,194	54,246	2,211	191,876
Less: depreciation and amortisation					(41,931)
Less: net interest expense					(23,045)
Profit before income tax					126,900
Segment assets	1,938,617	1,115,789	294,948	---	3,349,354
Elimination					(965,903)
Unallocated assets:					
Deferred tax					35,963
Derivative assets					551
Total assets					2,419,965
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	128,483	230,604	9,628	---	368,715

(c) Other segment information

(i) Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties reported to the CEO is measured in a manner consistent with that in the income statement.

Segment revenue reconciles to total revenue from continuing operations as follows:

	2012 $'000	2011 $'000
Total segment revenue	1,553,244	1,685,479
Other revenue, including interest revenue	2,455	2,254
Less: revenue from discontinued operations	(111,620)	(129,274)
Total revenue from continuing operations	1,444,079	1,558,459

(ii) EBITDAI

The CEO assesses the performance of the operating segments based on total revenue and EBITDAI. A reconciliation of EBITDAI to operating profit before income tax is provided in (b) above.

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Note 4. Segment information (continued)

(c) Other segment information (continued)

(iii) Breakdown of segment results between continuing and discontinued operations

The below is a breakdown of the total segment results as shown in (b) above between continuing and discontinued operations.

2012	Notes	Austral-asia $'000	Americas $'000	Europe $'000	Other * $'000	Rest of the World $'000	Total $'000
From continuing operations							
Sales to external customers	5	504,841	675,172	259,010	---	---	1,439,023
Third party royalties	5	---	---	---	---	2,608	2,608
Total segment revenue		504,841	675,172	259,010	---	2,608	1,441,631
EBITDAI		(30,074)	(62,629)	(17,626)	293	2,608	(107,428)
Less: depreciation and amortisation	7						(44,575)
Less: impairment charge	7						(342,955)
Less: net interest expense	5, 7						(27,707)
Loss before income tax							(522,665)
From discontinued operation							
Sales to external customers	5	17,424	75,135	19,054	---	---	111,613
Total segment revenue		17,424	75,135	19,054	---	---	111,613
EBITDAI		7,603	23,379	5,349	201,448	---	237,779
Less: depreciation and amortisation							(3,116)
Less: net interest expense							(176)
Profit before income tax	10						234,487

2011	Notes	Australasia $'000	Americas $'000	Europe $'000	Rest of the World $'000	Total $'000
From continuing operations						
Sales to external customers	5	486,485	759,247	308,268	---	1,554,000
Third party royalties	5	---	---	---	2,211	2,211
Total segment revenue		486,485	759,247	308,268	2,211	1,556,211
EBITDAI		49,663	53,074	44,305	2,211	149,253
Less: depreciation and amortisation	7					(37,809)
Less: net interest expense	5, 7					(22,760)
Profit before income tax						88,684
From discontinued operation						
Sales to external customers	5	15,419	84,490	29,359	---	129,268
Total segment revenue		15,419	84,490	29,359	---	129,268
EBITDAI		5,562	27,120	9,941	---	42,623
Less: depreciation and amortisation						(4,122)
Less: net interest expense						(285)
Profit before income tax	10					38,216

* Includes gain on sale, net of transaction costs

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Note 4. Segment information (continued)

(c) Other segment information (continued)

(iv) Other segment revenue information

Based on statutory legal entity reporting, segment revenue in relation to Australia represents 65% of Australasia (2011: 63%), segment revenue in relation to the United States of America represents 59% of Americas (2011: 63%) and segment revenue in relation to France represents 83% of Europe (2011: 83%).

Segment revenue in relation to retail represents 46% of the Group's total turnover for the year ended 30 June 2012 (2011: 38%), 67% of Australasia's total turnover for the year ended 30 June 2012 (2011: 56%), 40% of Americas' total turnover for the year ended 30 June 2012 (2011: 35%) and 25% of Europe's total turnover for the year ended 30 June 2012 (2011: 19%).

No single customer represents more than 10% of the Group's total turnover for the years ended 30 June 2012 and 30 June 2011.

(v) Segment assets

The amounts provided to the CEO with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. A reconciliation of the segment assets to the total assets is provided in (b) above.

Segment assets, excluding deferred tax assets and derivative assets, in relation to Australia represents 93% of Australasia (2011: 89%), in relation to the United States of America represents 63% of Americas (2011: 77%) and in relation to France represents 83% of Europe (2011: 88%).

Note 5. Revenue

	2012 $'000	2011 $'000
From continuing operations		
Sales revenue		
Sale of goods	1,439,023	1,554,000
Royalties	2,608	2,211
	1,441,631	1,556,211
Other revenue		
Interest	1,373	1,711
Other	1,075	537
	2,448	2,248
Total revenue from continuing operations	1,444,079	1,558,459
From discontinued operation (note 10)		
Sale of goods	111,613	129,268
Interest	7	6
	111,620	129,274

Note 6. Other income

	2012 $'000	2011 $'000
Foreign exchange gains	3,867	---
Gain from adjustment to contingent consideration (note 28)	22,522	1,011
Fair value adjustment to derivative liabilities (note 32)	288	1,521
Other	1,185	2,573
	27,862	5,105

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Note 7. Expenses

	2012 $'000	2011 $'000
Profit before income tax includes the following specific expenses:		
Expenses		
Cost of goods sold *	765,313	728,298
Selling, general and administrative expenses **	644,996	564,661
*Employee benefits expense (included in the amounts above)****	297,627	273,634
Depreciation		
Buildings	1,522	1,149
Plant and equipment	38,070	34,222
Plant and equipment under finance lease	836	660
Total depreciation	40,428	36,031
Amortisation of finite life intangible assets	4,147	1,778
Interest and finance charges		
Interest expense	29,080	24,471
Other borrowing costs	8,263	8,060
Provisions: unwinding of discounts	3,630	4,620
Total interest and finance charges	40,973	37,151
Net loss on disposal of property, plant and equipment	6,445	699
Foreign exchange losses	---	3,975
Acquisition related costs	2,381	8,847
Rental expense relating to operating leases		
Minimum lease payments	112,286	86,081
Contingent rentals	3,365	3,075
Total rental expense relating to operating leases	115,651	89,156
Impairment of other assets		
Inventories *(included in the cost of goods sold amount above)*	40,804	6,437
Trade receivables	31,610	4,284
Intangibles	329,934	---
Property, Plant and Equipment	13,021	---

* Included in cost of goods sold are a number of significant items. Refer to note 8 for further information.
** Included in selling, general and administrative expenses are a number of significant items. Refer to note 8 for further information.
*** Included in employee benefits expenses are a number of significant items. Refer to note 8 for further information.

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Note 8. Significant items

The following significant items impact (loss)/profit before income tax from continuing operations:

	2012 $'000	2011 $'000
Significant items included in cost of goods sold (note (a))		
Net realisable value shortfall expense on inventory realised / realisable below cost	73,705	---
	73,705	---
Significant items included in other income		
Gain from adjustment to contingent consideration (note 6)	(22,522)	(1,011)
Fair value adjustment to derivative liabilities (note 6)	(288)	(1,521)
	(22,810)	(2,532)
Significant items included in selling, general and administrative expenses (note (b))		
Specific doubtful debts expense	32,925	---
Early termination of leases and onerous lease / restructuring expense	58,021	---
Redundancy costs	9,097	3,450
Acquisition costs (note 38)	2,381	8,847
Interest rate swap termination costs	3,719	---
Indemnities for European agents	3,773	---
Costs associated with inventory clearance	2,743	---
Derek O'Neill termination costs (note 33)	2,510	---
Other significant expenses	2,195	---
	117,364	12,297
Significant items included in other expenses		
Impairment of goodwill, brands and other intangibles (note 18)	329,934	---
Impairment of property, plant and equipment (note 17)	13,021	---
Asset disposals	5,713	---
	348,668	---
	516,927	9,765

(a) Significant items included in cost of goods sold

(i) Net realisable value shortfall expense on inventory realised / realisable below cost

As a result of the strategic capital structure review by the Group, a decision was made to liquidate specific parcels of stock below cost to clear inventory in the years ended 30 June 2012 and 30 June 2013.

Also the Group identified a number of loss making or underperforming stores in its portfolio and has closed or intends to close these stores. The inventory in these stores together with any stock in the warehouse relating to these stores has or will be sold below cost in order to clear that inventory before the stores are closed.

(b) Significant items included in selling, general and administrative expenses

(i) Specific doubtful debts expense

In a number of geographies, the Group will discontinue working with specific wholesale accounts as a result of either their current financial position and/or the decision not to supply product under specific arrangements. As the discontinuation of supply to these accounts may result in recoverability issues arising in the current outstanding amounts due to the Group, a provision was raised against these large outstanding accounts receivable balances.

(ii) Early termination of leases and onerous lease / restructuring expense

The Group has identified a number of loss making or underperforming stores in its portfolio and intends to close these stores by either early termination or trading the stores to expiry. Actual costs include costs incurred for store closures after the announcement of the strategic capital structure review and costs expected for those store closures to occur post 30 June 2012.

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Note 8. Significant items (continued)

(b) Significant items included in selling, general and administrative expenses (continued)

(iii) Redundancy costs

During the financial year, the Group announced to the market and began a strategic capital structure review of the business and flagged significant cost saving activities associated with this initiative. This review has resulted in redundancy costs in relation to store closures and the cost restructuring program. Actual costs include redundancies which have occurred since the announcement of the strategic capital structure review and costs expected for those redundancies to occur post 30 June 2012 in relation to previously announced store closures in future financial years and other restructuring initiatives.

(iv) Interest rate swap termination costs

On 29 June 2012 all of the Group's interest rate swaps were terminated. The termination of the interest rate swap contracts incurred costs of $3.7 million.

(v) Indemnities for European agents

Under specific agreements with the agents acting on behalf of the Group in Germany and Italy, payments are required to these parties to terminate the agency agreements under which they operate and accordingly these have been either paid or fully provided for at 30 June 2012.

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Note 9. Income tax expense

	2012 $'000	2011 $'000
(a) Income tax expense		
Current tax	4,970	23,168
Deferred tax	(21,227)	(12,240)
Adjustments for current tax of prior periods	4,760	(2,073)
	(11,497)	8,855
Income tax expense is attributable to:		
Loss from continuing operations	(39,981)	(3,849)
Profit from discontinued operation	28,484	12,704
Aggregate income tax expense	(11,497)	8,855
Deferred income tax revenue included in income tax expense comprises:		
Increase in deferred tax assets (note 19)	(27,806)	(18,706)
Increase in deferred tax liabilities (note 26)	6,579	6,466
	(21,227)	(12,240)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
(Loss)/profit from continuing operations before income tax expense	(522,665)	88,684
Profit from discontinuing operation before income tax expense	234,487	38,216
	(288,178)	126,900
Tax at the Australian tax rate of 30% (2011: 30%)	(86,453)	38,070
Tax effect of amounts which are not (taxable)/deductible in calculating taxable income:		
Net exempt income	(80,911)	(15,432)
Goodwill impairment	100,014	---
Tax expense on gain on sale	17,186	---
Adjustment to contingent consideration	(6,309)	---
Sundry items	(2,628)	(2,761)
Other non-deductible permanent differences	5,580	5,018
	(53,521)	24,895
Difference in overseas tax rates	14,981	239
Under/(over) provision in prior years	4,760	(2,073)
Prior year tax losses previously not recognised	(722)	(4,077)
Tax losses not recognised	23,005	---
Deferred tax on deferred consideration previously not recognised	---	(10,129)
Income tax (benefit)/expense	(11,497)	8,855
(c) Amounts recognised directly in equity		
Deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited to equity:		
Net deferred tax	373	---
	373	---
(d) Tax expense / (income) relating to items of other comprehensive income		
Cash flow hedges (note 19, note 26)	1,402	(1,411)
Investment hedge (note 19, note 26)	1,730	(3,222)
	3,132	(4,633)
(e) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	115,477	40,135
Potential tax benefit @ 30%	34,643	12,041

All unused tax losses were incurred by entities that are not part of the Australian tax consolidated group.

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Note 9. Income tax expense (continued)

(f) Tax consolidation legislation

Billabong International Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002. The accounting policy in relation to this legislation is set out in note 1(bb).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Billabong International Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned Australian controlled entities fully compensate Billabong International Limited for any current tax payable assumed and are compensated by Billabong International Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Billabong International Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current inter-company receivables or payables.

(g) Other matters

The income tax benefit for the year ended 30 June 2012 was $11.5 million (tax expense of $8.9 million in the pcp), an effective rate of tax of 4.0% (2011: 7.0%). The lower effective tax rate is driven by the partial sale of Nixon and other non-taxable items including deferred consideration. Adjusting for these significant amounts and also goodwill impairment and non-recognition of losses the effective tax rate for the Group would have been approximately 33.8% (2011: 21.0% adjusting for equivalent amounts). The effective tax rate is dependent on the mix of profit by country and exchange rate fluctuations.

Note 10. Discontinued operation

(i) Description
On 17 April 2012 the Group sold 51.5% of Nixon with 48.5% being purchased by Trilantic Capital Partners and 3% being purchased by Nixon management. The Group has retained a 48.5% interest in Nixon. The agreement was actioned on 16 April 2012 with effect from 17 April 2012 and Nixon has been reported in these financial statements as a discontinued operation.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

(ii) Financial performance and cash flow information
The financial performance and cash flow information presented are for the period 1 July 2011 to 16 April 2012 and the year ended 30 June 2011.

	2012 $'000	2011 $'000
Revenue (note 5)	111,620	129,274
Expenses	(78,581)	(91,058)
Profit before income tax	33,039	38,216
Income tax expense	(11,298)	(12,704)
Profit after income tax of discontinued operation	21,741	25,512
Gain on sale, net of transaction costs before income tax	201,448	---
Income tax expense	(17,186)	---
Gain on sale, net of transaction costs after income tax	184,262	---
Profit from discontinued operation	206,003	25,512

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Note 10. Discontinued operation (continued)

	2012 $'000	2011 $'000
Net cash inflow from operating activities	19,219	30,953
Net cash inflow/(outflow) from investing activities (2012 includes an inflow of $274.1 million from the partial sale of Nixon)	270,332	(3,929)
Net cash outflow from financing activities	(2,427)	(1,118)
Net increase in cash generated by Nixon	287,124	25,906

(iii) Details of the partial sale of Nixon

	$'000
Consideration received or receivable:	
Cash net of cash divested and transaction costs	274,136
Working capital adjustment receivable	3,275
Total disposal consideration	277,411
Carrying value of initial investment in Nixon Investments LLC (note 16)	134,286
Present value of onerous contracts (note 24 and 27)	(16,739)
Foreign currency translation reserve reclassified to income statement	(22,721)
Carrying value of assets sold	(170,789)
Gain on sale, net of transaction costs before income tax	201,448
Income tax expense	(17,186)
Gain on sale, net of transaction costs after income tax	184,262

The carrying value of assets and liabilities as at the date of sale (17 April 2012) were:

	17 April 2012 Carrying value $'000
Trade and other receivables	23,014
Inventory	29,320
Plant and equipment (note 17)	8,509
Deferred tax assets (note 19)	1,652
Identifiable intangible assets (note 18)	139,936
Total Assets	202,431
Trade and other payables	(12,214)
Deferred tax liabilities (note 26)	(18,989)
Employee entitlements	(439)
Total liabilities	(31,642)
Net assets	170,789

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Note 11. Current assets – Cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank and in hand	297,085	141,679
Deposits at call	20,178	3,179
	317,263	144,858

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the consolidated statement of cash flows as follows:

	2012 $'000	2011 $'000
Balances as above	317,263	144,858
Bank overdrafts (note 22)	(1,599)	(433)
Balances per statement of cash flows	315,664	144,425

Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 2.

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Note 12. Current assets – Trade and other receivables

	2012 $'000	2011 $'000
Trade receivables	249,513	361,214
Provision for impairment of receivables (note (a))	(39,551)	(19,854)
	209,962	341,360
Other receivables (note (c))	35,073	33,015
	245,035	374,375

(a) Impaired trade receivables

As at 30 June 2012 current trade receivables of the Group with a nominal value of $51.5 million (2011: $20.8 million) were impaired. The amount of the provision was $39.6 million (2011: $19.9 million). The individually impaired receivables mainly relate to retailers encountering difficult economic conditions. It was assessed that a portion of the receivables is expected to be recovered.

The ageing of these receivables is as follows:

	2012 $'000	2011 $'000
Up to 3 months	11,060	6,135
3 to 6 months	3,928	912
Over 6 months	36,531	13,705
	51,519	20,752

Movements in the provision for impairment of receivables are as follows:

	2012 $'000	2011 $'000
At 1 July	19,854	21,521
Provision for impairment recognised during the year	32,211	5,584
Receivables written off during the year	(8,287)	(4,816)
Disposal of discontinued operation	(2,124)	---
Exchange differences	(2,103)	(2,435)
At 30 June	39,551	19,854

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(b) Past due but not impaired

As at 30 June 2012, trade receivables of $51.2 million (2011: $67.8 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2012 $'000	2011 $'000
Up to 3 months	31,205	35,013
3 to 6 months	9,127	13,208
Over 6 months	10,848	19,558
	51,180	67,779

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

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Note 12. Current assets – Trade and other receivables (continued)

(c) Other receivables

This amount includes $4.8 million (2011: $12.4 million) relating to amounts recoverable under a debtor factoring arrangement. During the years ended 30 June 2012 and 30 June 2011 North American subsidiaries of the parent entity assigned a portion of their accounts receivable to a factor under an agreement which continues for a specified term. All credit risk passes to the factor at the time of the assignment, such that the North American subsidiaries of the parent entity have no further exposure to default by the trade debtors. The factor charges a commission on the net sales factored and interest (at prime rate plus 1%) on any amounts unpaid from the expiry of the initial term and until all amounts advanced have been repaid to the factor. This is comparable with the terms and conditions of normal North American sales arrangements with its customers. The subsidiaries may repay any unpaid advance on the net sales factored at any time before the expiry of the initial term.

Other amounts included in other receivables generally arise from transactions outside the usual operating activities of the consolidated entity. Collateral is not normally obtained.

(d) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign exchange risk and interest rate risk in relation to trade and other receivables is provided in note 2.

(e) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The Group does not hold any collateral as security. Refer to note 2 for more information on the Risk Management Policy of the Group and the credit quality of the Group's trade receivables.

Note 13. Current assets – Inventories

	2012 $'000	2011 $'000
Raw materials and stores – at cost	3,842	5,940
Work in progress – at cost	7,734	11,377
Finished goods		
- at cost	255,821	312,596
- at net realisable value	25,804	18,825
	293,201	348,738

Inventory expense
Inventories recognised as an expense from continuing operations during the year ended 30 June 2012 amounted to $724.5 million (2011: $721.9 million). Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2012 amounted to $73.7 million (2011: $6.4 million) with $32.9 million representing inventory realised through sale to customers during the year. The expense has been included in 'cost of goods sold' in the income statement.

Note 14. Current assets – Other

	2012 $'000	2011 $'000
Prepayments	22,921	24,474
Derivative financial assets (note 32)	1,879	551
	24,800	25,025

Risk exposure
Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2.

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Note 15. Non-current assets – Receivables

	2012 $'000	2011 $'000
Other receivables	11,560	14,106
	11,560	14,106

Other receivables predominantly relate to store lease deposits.

(a) Impaired receivables and receivables past due

None of the non-current receivables are impaired (2011: Nil), and none of the non-current receivables are considered past due but not impaired (2011: $2.6 million or US$2.7 million).

(b) Fair values

The fair values and carrying values of non-current receivables are as follows:

	2012		2011	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Other receivables	11,560	11,560	14,106	14,106

(c) Risk exposure

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2.

Note 16. Non-current assets – Investment accounted for using the equity method

The Group has a 48.5% interest in Nixon Investments LLC, a leader in the premium watch and accessories action sports market. Nixon Investments LLC is resident in the United States of America.

(a) **Movements in carrying amounts**

	2012 $'000	2011 $'000
Carrying amount at the beginning of the financial year	---	---
Carrying value of initial investment	134,286	---
Share of profits after income tax	293	---
Carrying amount at the end of the financial year	134,579	---

(b) Summarised financial information of associate

	2012 $'000	2011 $'000
Company's share of:		
Assets	113,020	---
Liabilities	107,675	---
Revenues	16,847	---
Profit	293	---

(c) Contingent liabilities of associate

As at 30 June 2012 Nixon Investments LLC had no contingent liabilities.

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Note 17. Non-current assets – Property, plant and equipment

	Land and buildings	Furniture, fittings and equipment	Leased plant and equipment	Total
	$'000	$'000	$'000	$'000
At 30 June 2010				
Cost or fair value	54,520	258,689	9,690	322,899
Accumulated depreciation	(3,541)	(144,296)	(4,585)	(152,422)
Net book amount	50,979	114,393	5,105	170,477
Year ended 30 June 2011				
Opening net book amount	50,979	114,393	5,105	170,477
Additions from acquisitions (note 38)	---	27,532	---	27,532
Additions	---	41,858	56	41,914
Disposals	---	(1,198)	---	(1,198)
Depreciation charge	(1,149)	(38,323)	(660)	(40,132)
Exchange differences	(1,535)	(11,926)	(280)	(13,741)
Closing net book amount	48,295	132,336	4,221	184,852
At 30 June 2011				
Cost or fair value	51,442	291,999	9,083	352,524
Accumulated depreciation and impairment	(3,147)	(159,663)	(4,862)	(167,672)
Net book amount	48,295	132,336	4,221	184,852

	Land and buildings	Furniture, fittings and equipment	Leased plant and equipment	Total
	$'000	$'000	$'000	$'000
Year ended 30 June 2012				
Opening net book amount	48,295	132,336	4,221	184,852
Additions	---	40,787	8,298	49,085
Disposal of discontinued operation (note 10)	---	(8,509)	---	(8,509)
Other disposals	---	(4,915)	---	(4,915)
Depreciation charge	(1,522)	(41,088)	(836)	(43,446)
Impairment charge	---	(13,021)	---	(13,021)
Exchange differences	(841)	(2,624)	(428)	(3,893)
Closing net book amount	45,932	102,966	11,255	160,153
At 30 June 2012				
Cost or fair value	52,128	278,755	16,457	347,340
Accumulated depreciation and impairment	(6,196)	(175,789)	(5,202)	(187,187)
Net book amount	45,932	102,966	11,255	160,153

Non-current assets pledged as security
Refer to note 25(c) for information on non-current assets pledged as security by the consolidated entity.

Impairment charge
As a result of the impairment review of property, plant and equipment, certain assets relating to company owned retail stores have been written down to their recoverable amount being their value-in-use. Value-in-use has been assessed by reference to management's best estimate of the risk adjusted future earnings performance of each store over the remaining life of the lease. In addition, as a part of the strategic capital structure review a number of stores have been closed during the year and further stores have been flagged for closure in the future resulting in a write-off of non-reusable assets. This resulted in a pre-tax impairment charge in respect of property, plant and equipment in various countries which amounted to $13.0 million. This impairment charge has been included within the other expenses line item in the income statement.

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Note 18. Non-current assets – Intangible assets

	Goodwill	Indefinite life		Finite life	Total
		Brands	Other *		
	$'000	$'000	$'000	$'000	$'000
At 30 June 2010					
Cost	495,469	619,576	10,642	6,816	1,132,503
Accumulated amortisation	(10,148)	---	---	(4,047)	(14,195)
Net book amount	485,321	619,576	10,642	2,769	1,118,308
Year ended 30 June 2011					
Opening net book amount	485,321	619,576	10,642	2,769	1,118,308
Additions from acquisitions (note 38)	259,399	22,650	---	1,184	283,233
Additions **	5,239	3,184	421	5,549	14,393
Adjustment to contingent consideration (note 28)	(12,641)	---	---	---	(12,641)
Amortisation charge	---	---	---	(1,799)	(1,799)
Exchange differences	(100,746)	(31,104)	(804)	(379)	(133,033)
Closing net book amount	636,572	614,306	10,259	7,324	1,268,461
At 30 June 2011					
Cost	646,637	614,306	10,259	12,836	1,284,038
Accumulated amortisation	(10,065)	---	---	(5,512)	(15,577)
Net book amount	636,572	614,306	10,259	7,324	1,268,461

	Goodwill	Indefinite life		Finite life	Total
		Brands	Other *		
	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2012					
Opening net book amount	636,572	614,306	10,259	7,324	1,268,461
Additions **	2,494	---	304	15,840	18,638
Disposal of discontinued operation (note 10)	(85,871)	(53,968)	---	(97)	(139,936)
Adjustment to contingent consideration (note 28)	(28,328)	---	---	---	(28,328)
Disposals	---	---	---	(2,296)	(2,296)
Amortisation charge	---	---	---	(4,245)	(4,245)
Impairment charge (note (a))	(144,340)	(182,417)	(2,297)	(880)	(329,934)
Exchange differences	7,951	5,497	(1,275)	1,367	13,540
Closing net book amount	388,478	383,418	6,991	17,013	795,900
At 30 June 2012					
Cost	541,791	565,835	9,413	28,595	1,145,634
Accumulated amortisation and impairment	(153,313)	(182,417)	(2,422)	(11,582)	(349,734)
Net book amount	388,478	383,418	6,991	17,013	795,900

* Other indefinite life intangible assets relate to key money.
** Additions include other immaterial acquisitions.

Adjustment to contingent consideration on acquisitions which occurred pre 1 July 2009
Information about the adjustment to contingent consideration is provided in note 28.

Amortisation charge
Amortisation charge of $4.2 million (2011: $1.8 million) has been included in 'other expenses' in the income statement.

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Note 18. Non-current assets – Intangible assets (continued)

(a) Impairment tests for goodwill and brands

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to brands acquired or geographical regions where operations existed at the time goodwill arose.

Brands are allocated to the Group's CGUs identified according to individual brands.

The recoverable amount of a CGU is firstly determined based on value-in-use (VIU) calculations. These calculations use cash flow projections based on financial budgets with anticipated growth rates approved by the Board of Directors covering a four year period and include a terminal value based upon maintainable cash flows.

If the VIU of a CGU is lower than its carrying amount, then the CGU's fair value less costs to sell (FVLCTS) is determined as AASB 136 requires the recoverable amount of a CGU to be the higher of VIU and FVLCTS. In applying the FVLCTS approach, the recoverable amount of a CGU is assessed using market based valuation techniques such as discounted cash flow analysis, comparable transactions and observable trading multiples.

	Goodwill		Brands	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000
Billabong	---	55,083	252,116	434,533
Element	850	850	28,630	28,630
Von Zipper	---	---	1,187	1,187
Kustom	3,746	3,746	10,540	10,540
Palmers	---	---	5,113	5,113
Honolua	6,453	6,180	4,385	4,385
Beachculture	---	---	853	853
Nixon	---	81,579	---	51,691
Amazon	---	---	1,074	1,059
Xcel	10,920	9,850	3,336	3,195
Tigerlily	1,889	1,889	3,600	3,600
Sector 9	26,613	24,335	8,831	8,459
DaKine	77,719	102,154	44,128	42,264
RVCA	73,943	70,853	19,625	18,797
Australia	57,473	74,864	---	---
New Zealand	8,232	8,202	---	---
South Africa	---	36,971	---	---
North America	114,619	153,371	---	---
Europe	6,021	6,645	---	---
	388,478	636,572	383,418	614,306

As at 30 June 2012, all of the above CGUs were tested for impairment in accordance with AASB 136. Due to the deterioration in trading conditions in the global retail sector, the Group has experienced significant declines in sales and profitability across a number of regions and brands and as a result impairment charges were recognised for the CGUs set out in the table below. Recoverable amounts for these CGUs were determined using VIU being the calculations which gave a higher recoverable amount.

	Goodwill		Brands	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000
Billabong	55,083	---	182,417	---
Australia	17,410	---	---	---
South Africa	32,347	---	---	---
North America	39,500	---	---	---
	144,340	---	182,417	---

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Note 18. Non-current assets – Intangible assets (continued)

(b) Key assumptions used for value-in-use calculations

The value-in-use calculations have been based on a four year business plan projecting forecast profitability and cash flows prepared by management and approved by the Board, together with a terminal value. The following key assumptions have been used in the calculations.

Sales are forecast to cumulatively increase over the four year 2013 to 2016 business plan period in a range of 4% to 55% for brand CGUs. EBITDAI is forecast to cumulatively increase over the four year 2013 to 2016 business plan period in a range of 8% to 194% for brand CGUs.

Sales are forecast to cumulatively increase over the four year 2013 to 2016 business plan period in a range of 15% to 56% for region CGUs. EBITDAI is forecast to cumulatively increase over the four year 2013 to 2016 business plan period in a range of 41% to 165% for region CGUs.

For brand and region CGUs impaired in the year ended 30 June 2012 sales are forecast to cumulatively increase over the four year 2013 to 2016 business plan period in a range of 18% to 33% and EBITDAI is forecast to cumulatively increase over the four year 2013 to 2016 business plan period in a range of 51% to 101%.

The relatively strong EBITDAI growth for both brand and region CGUs reflects the expected Group EBITDAI margin expansion to 11.4% by 2016 that the Group plans to achieve based on expected trading conditions and through the implementation of various strategic initiatives.

Pre-tax cash flow projections for brand CGUs are discounted using a pre-tax discount rate range between 12.5% and 14.25% (2011: 12.0% and 14.0%).

Pre-tax cash flow projections for regional CGUs with allocated goodwill are discounted using a pre-tax discount rate between 12.5% and 16.3% (2011: 12.5% and 16.3%).

The discount rates used reflect specific risks relating to the relevant region of operation or the brand and are derived from the Group's weighted average cost of capital.

Terminal growth rates used in the value-in-use calculations are 3.5% for all brands and regions CGUs (2011: range between 4.0% and 5.0%), being lower than the rates used in 2011 reflecting a greater degree of conservatism given the deterioration in trading conditions in the global retail sector. The terminal growth rates used reflect the maturity and establishment of the brand or region.

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Note 18. Non-current assets – Intangible assets (continued)

(c) Sensitivity

The estimates and judgments included in the value-in-use calculations (including the four year projected business plan period and terminal value) are based on historical experience and other factors, including management's and the Board's expectations of future events that are believed to be reasonable under the current circumstances.

The inherent nature of future projected results means that, by definition, the resulting accounting estimates will seldom equal the related actual results. The recoverable amount is particularly sensitive to key assumptions including, EBITDAI growth and the long term growth rate. As a result the Group has conducted a range of sensitivities on the recoverable amount:

- If the long term growth rate were to decrease from 3.5% to 3.0%, goodwill and brands would need to be further impaired by approximately $38 million, with all other assumptions remaining constant;
- Conversely, having regard to the lower sales and EBITDAI results base in 2012, a more optimistic approach could be adopted using the same long term growth rates that were assumed in 2011 (range between 4.0% and 5.0%), which would result in a reduction in the goodwill / brand impairment charge of $326.8 million in 2012 by an amount of approximately $93 million, with all other assumptions remaining constant;
- If the EBITDAI margin of 11.4% in the 2016 business plan were to decrease by 10% to 10.3%, goodwill and brands would need to be further impaired by approximately $107 million, with all other assumptions remaining constant;
- Conversely, if the EBITDAI margin of 11.4% in the 2016 business plan were to increase by 10% to 12.5%, this would result in a reduction in the goodwill / brand impairment charge of $326.8 million in 2012 by an amount of approximately $186 million, with all other assumptions remaining constant.

Management and the Board believe that other reasonable changes in key assumptions on which recoverable amounts have been calculated, would not cause the Group's carrying amounts for goodwill and brands to exceed their recoverable amounts.

The Group has and continues to undertake a range of strategic reviews to deliver the EBITDAI growth included in the four year 2013 to 2016 business plan.

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Note 19. Non-current assets – Deferred tax assets

	2012 $'000	2011 $'000
The deferred tax assets balance comprises temporary differences attributable to:		
Trade and other receivables	14,592	6,758
Employee benefits	5,572	7,845
Inventories	12,246	11,821
Trade and other payables	4,734	2,584
Plant and equipment	8,293	3,961
Rights issue	1,694	1,037
Other	7,316	5,263
Tax losses	30,162	25,066
Finance lease liabilities	4,495	2,046
Cash flow hedges	109	1,909
Provisions	12,728	---
Deferred consideration	2,637	9,474
Total deferred tax assets	104,578	77,764
Set-off of deferred tax assets against deferred tax liabilities pursuant to set-off provisions (note 26)	(33,480)	(41,801)
Net deferred tax assets	71,098	35,963
Movements:		
Opening balance at 1 July	77,764	60,217
Credited to the income statement (note 9)	27,806	18,706
(Charged)/credited to other comprehensive income (note 9)	(2,550)	2,994
Charged to equity (note 9)	(373)	---
Disposal of discontinued operation (note 10)	(1,652)	---
Adjustment to prior year tax	610	(2,236)
Exchange differences	2,973	(8,607)
Acquisition of subsidiary (note 38)	---	6,690
Closing balance at 30 June	104,578	77,764
Deferred tax assets to be recovered after more than 12 months	71,245	46,303
Deferred tax assets to be recovered within 12 months	33,333	31,461
	104,578	77,764

Based on the four year business plan prepared by Management and approved by the Board, the Group considers it probable that the carried forward tax losses and temporary differences can be offset against future taxable profits.

Note 20. Non-current assets – Other

	2012 $'000	2011 $'000
Prepayments	7,658	7,729
	7,658	7,729

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Note 21. Current liabilities – Trade and other payables

	2012 $'000	2011 $'000
Trade payables	172,260	195,087
Other payables	146,170	145,584
Derivative financial liabilities (note 32)	1,795	3,363
	320,225	344,034

(a) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 2.

(b) Other payables

Included in other payables is deferred payments payable of $64.3 million (US$64.4 million and GBP 0.7 million) relating to Quiet Flight, DaKine, Two Seasons and Swell (2011: $86.2 million (US$91.8 million) deferred payment payable to Quiet Flight, Nixon and Xcel). Refer to note 28 for further information on deferred payments.

Note 22. Current liabilities – Borrowings

	2012 $'000	2011 $'000
Secured		
Bank overdrafts	---	433
Total secured current borrowings	---	433
Unsecured		
Syndicated facility	216,557	---
Bank overdrafts	1,599	---
Bank loans	7,788	13,049
Lease liabilities (note 36)	1,438	1,225
Other loans	1,706	555
Total unsecured current borrowings	229,088	14,829
Total current borrowings	229,088	15,262

(a) Syndicated facility

In June 2012, the Group renegotiated its banking covenants and undertook to partially repay and partially cancel the Syndicated Revolving Multi-Currency Facility with the proceeds received from the rights issue announced on 21 June 2012. As a result of this commitment to repay these borrowings the amount has been classified as current.

(b) Bank loans

Bank loans represent term loans with variable interest rates.

(c) Other loans

Other loans represent term loans with variable interest rates.

(d) Security and fair value disclosures

Details of the security relating to each of the secured liabilities, the fair value of each of the borrowings and further information on the bank loans are set out in note 25.

(e) Risk exposure

Details of the Group's exposures to risks arising from current and non-current borrowings are set out in note 2.

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Note 23. Current liabilities – Current tax liabilities

	2012 $'000	2011 $'000
Income tax	2,953	1,839

As shown on the consolidated balance sheet the current tax receivable is $18.6 million (2011: $15.9 million).

Note 24. Current liabilities – Provisions

	2012 $'000	2011 $'000
Employee benefits	10,512	10,333
Provision for contingent tax liabilities (note (a))	13,077	17,740
Onerous lease/contract and restructuring provisions (note (b))	35,588	---
	59,177	28,073

(a) Provision for contingent tax liabilities

Provision for contingent tax liabilities of $13.1 million (2011: $17.7 million) represents contingent liabilities recognised at fair value as part of the acquisition accounting for the Canadian retail chain West 49. The assessment of the amount of contingent tax liabilities involves the exercise of management judgements concerning potential future events.

(b) Onerous lease/contract and restructuring provisions

During the financial year, the Group announced to the market and began a strategic capital structure review of the business and flagged significant costs associated with this initiative including but not limited to retail store closures and cost restructuring. A provision has been recognised for the direct expenditures arising from this review.

A key part of the strategic capital structure review involved identifying a number of loss making or underperforming stores in its portfolio with the intention to close these stores by either early termination or trading the stores to expiry. Provision has been raised for the negotiated and estimated settlement costs of terminating the leases early or the minimum unavoidable costs of trading the stores to lease expiry. The Group have also identified several onerous contracts. A provision has been recognised for the estimated minimum unavoidable costs under a contract and the provision reflects the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil the contract.

(d) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

2012	Contingent tax liabilities	Onerous lease/contract and restructuring provisions	Total
	$'000	$'000	$'000
Carrying amount at start of year	17,740	---	17,740
Additional provisions recognised	---	35,588	35,588
Adjustment to acquisition accounting (note 38)	(4,340)	---	(4,340)
Exchange differences	(323)	---	(323)
Carrying amount at end of year	13,077	35,588	48,665

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Note 25. Non-current liabilities – Borrowings

	2012 $'000	2011 $'000
Unsecured		
Syndicated facility	216,620	564,112
Drawdown facility	25,879	33,775
Lease liabilities (note 36)	6,570	16
Total unsecured non-current borrowings	249,069	597,903
Total non-current borrowings	249,069	597,903

(a) Syndicated facility

The syndicated facility is utilised by the Group's major regions and is a multi-currency facility enabling the Group to borrow in Australian dollars (AUD), United States dollars (USD), Euro (EUR), Great Britain pounds (GBP), Japanese Yen (JPY), New Zealand dollars (NZD), Canadian dollars (CAD), Singapore dollars (SGD) and Hong Kong dollars (HKD). The syndicated facility has funding periods of 1, 2, 3, 4 and 6 calendar months. Interest is payable in arrears and calculated as the benchmark reference rate plus a margin. Applicable benchmark reference rates include: London Interbank Offered Rate (LIBOR); USD LIBOR; and Bank Bill Swap Rate (BBSY). The syndicated facility may be drawn at any time during the term of the facility provided the Company or Group does not trigger an event of default.

As at 30 June 2011 the Group had an unsecured Syndicated Revolving Multi-Currency Facility with a limit of US$790.0 million (US$395.0 million due for roll-over on or prior to 28 July 2013 with the remaining US$395.0 million due for roll-over on or prior to 28 July 2014).

On 30 January 2012 the Group renegotiated the syndicated facility in conjunction with the partial sale of the Nixon business and agreed that the net consideration received in connection with this transaction be applied towards a partial repayment and cancellation of this facility.

On 20 June 2012 the Group renegotiated the syndicated facility in conjunction with the equity raising announced on 21 June 2012 and agreed that upon receipt of the equity raising proceeds, the net proceeds be applied towards a further partial repayment and cancellation of this facility.

As at 30 June 2012 the Group had an unsecured Syndicated Revolving Multi-Currency Facility with a limit of US$577.0 million (US$182.0 million due for roll-over on or prior to 28 July 2013 with the remaining US$395.0 million due for roll-over on or prior to 28 July 2014).

Following receipt of the equity raising proceeds, the Group finalised the partial repayment and partial cancellation of this facility. As at 1 August 2012 the Group had an unsecured Syndicated Revolving Multi-Currency Facility with a limit of US$384.5 million, which is due for roll-over on or prior to 28 July 2014.

(b) Drawdown facility

The drawdown facility is utilised by the Group's major regions and enables the Group to borrow in Australian dollars (AUD), United States dollars (USD), Canadian dollars (CAD), Euro (EUR), Great Britain pounds (GBP) and Korean Won (KRW). The facility may be drawn at any time during the term of the facility provided the Company or Group does not trigger an event of default.

At 30 June 2011 the Group had a US$100.0 million unsecured multi-currency drawdown facility which was due for roll-over on or prior to 28 July 2013.

On 30 January 2012 the Group renegotiated the drawdown facility in conjunction with the partial sale of the Nixon business and agreed that the net consideration received in connection with this transaction be applied towards a partial repayment and cancellation of this facility on a pro rata basis with the reduction in the syndicated facility detailed above.

On 20 June 2012 the Group renegotiated the drawdown facility in conjunction with the equity raising announced on 21 June 2012 and agreed that upon receipt of the equity raising proceeds, the net proceeds be applied towards a further partial repayment and cancellation of this facility on a pro rata basis with the reduction in the Syndicated Revolving Multi-Currency Facility detailed above.

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Note 25. Non-current liabilities – Borrowings (continued)

(b) Drawdown facility (continued)

At 30 June 2012, the Group has a US$78.0 million unsecured multi-currency drawdown facility which is due for roll-over on or prior to 28 July 2013.

Following receipt of the equity raising proceeds, the Group finalised the partial repayment and partial cancellation of this facility. As at 1 August 2012 the Group had an unsecured multi-currency drawdown facility with a limit of US$52.0 million, which is due for roll-over on or prior to 28 July 2014.

(c) Assets pledged as security

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	2012 $'000	2011 $'000
Current		
Floating charge		
Trade and other receivables	---	433
Total current assets pledged as security	---	433
Total assets pledged as security	---	433

(d) Financing arrangements

	2012 $'000	2011 $'000
Credit standby arrangements		
Total facilities		
Bank overdrafts and at-call facilities	12,224	12,462
Trade finance facilities	69,569	77,495
Cash advance and other facilities	656,263	842,100
	738,056	932,057
Used at balance date		
Bank overdrafts and at-call facilities	1,599	433
Trade finance facilities	44,748	37,728
Cash advance and other facilities	462,924	600,339
	509,271	638,500
Unused at balance date		
Bank overdrafts and at-call facilities	10,625	12,029
Trade finance facilities	24,821	39,767
Cash advance and other facilities	193,339	241,761
	228,785	293,557
Bank loan facilities		
Total facilities	22,252	20,970
Used at balance date	7,788	13,049
Unused at balance date	14,464	7,921

Trade finance facilities, utilised by the Group for the provision of letters of credit to suppliers, may be drawn upon at any time and may be terminated by the bank at any time by way of written notice. Subject to no event of default, the Group may draw down on the syndicated and drawdown facilities at any time over the term of the facilities.

(e) Risk exposure

Information about the Group's exposure to interest rate and foreign currency changes is provided in note 2.

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Note 25. Non-current liabilities – Borrowings (continued)

(f) Fair value

The carrying amounts and fair values of borrowings at balance date are:

	2012		2011	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
On-balance sheet				
Lease liabilities	8,008	7,138	1,241	1,206
	8,008	7,138	1,241	1,206

All other fair values equal the carrying values of borrowings.

Fair value is inclusive of costs which would be incurred on settlement of a liability. The fair value of the borrowings on balance sheet is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles. None of the borrowings are traded.

Note 26. Non-current liabilities – Deferred tax liabilities

	2012 $'000	2011 $'000
The deferred tax liabilities balance comprises temporary differences attributable to:		
Trade and other receivables	130	391
Property, plant and equipment	6,925	5,766
Prepayments	6,455	7,098
Other	2,839	2,040
Intangible assets – brands	60,686	73,208
Cash flow hedges	626	207
Total deferred tax liabilities	77,661	88,710
Set-off of deferred tax assets pursuant to set-off provisions (note 19)	(33,480)	(41,801)
Net deferred tax liabilities	44,181	46,909
Movements:		
Opening balance at 1 July	88,710	92,376
Charged to the income statement (note 9)	6,579	6,466
Charged/(credited) to other comprehensive income (note 9)	582	(1,639)
Disposal of discontinued operation (note 10)	(18,989)	---
Adjustment to prior year tax	107	(989)
Exchange differences	672	(7,517)
Acquisition of subsidiary (note 38)	---	13
Closing balance at 30 June	77,661	88,710
Deferred tax liabilities to be settled after more than 12 months	62,449	85,532
Deferred tax liabilities to be settled within 12 months	15,212	3,178
	77,661	88,710

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Note 27. Non-current liabilities – Provisions and other payables

	2012 $'000	2011 $'000
Employee benefits	3,658	3,580
Derivative financial liabilities (note 32)	24,298	10,501
Onerous lease/contract and restructuring provisions (note (a))	42,505	---
Other payables	9,885	10,922
	80,346	25,003

(a) Onerous lease/contract and restructuring provisions

During the financial year, the Group announced to the market and began a strategic capital structure review of the business and flagged significant costs associated with this initiative including but not limited to retail store closures and cost restructuring. A provision has been recognised for the direct expenditures arising from this review.

A key part of the strategic capital structure review involved identifying a number of loss making or underperforming stores in its portfolio with the intention to close these stores by either early termination or trading the stores to expiry. Provision has been raised for the negotiated and estimated settlement costs of terminating the leases early or the minimum unavoidable costs of trading the stores to lease expiry. The Group have also identified several onerous contracts. A provision has been recognised for the estimated minimum unavoidable costs under a contract and the provision reflects the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil the contract.

(c) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

2012	Onerous lease/contract and restructuring provisions $'000
Carrying amount at start of year	---
Additional provisions recognised	42,505
Carrying amount at end of year	42,505

Note 28. Deferred payments

The non-current deferred payments payable of $67.6 million relates to the Sector 9, RVCA, and SDS/Jetty Surf acquisitions (2011: $164.1 million relates to Sector 9, DaKine, RVCA, Two Seasons, Swell and SDS/Jetty Surf acquisitions). Included in note 21 'other payables' is deferred payments payable of $64.3 million relating to Quiet Flight, DaKine, Two Seasons and Swell (2011: $86.2 million relates to Quiet Flight, Nixon and Xcel).

The deferred payments for DaKine, Swell and Two Seasons were reclassified from non-current to current during the 2011-12 financial year, and were also restated taking into account the latest Board approved forecast, resulting in a decrease of approximately US$29.3 million and US$1.4 million in the underlying USD payable for DaKine and Swell respectively, and a decrease of approximately GBP 0.5 million in the underlying GBP payable relating to Two Seasons. The adjustment in relation to Swell has been recognised in the income statement. Refer to note 6.

The non-current deferred payments were restated during the year ended 30 June 2012 taking into account the latest Board approved forecasts. This resulted in an increase of approximately US$1.2 million in the underlying payable relating to Sector 9, and a decrease of approximately US$21.0 million in the underlying USD payable relating to RVCA. The adjustment in relation to RVCA has been recognised in the income statement. Refer to note 6.

As at 30 June 2012 the deferred consideration relating to all acquisitions has been fully recognised at present value taking into account the latest Board approved forecasts. Refer to note 35.

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Note 29. Contributed equity

	Notes	2012 Shares '000	2011 Shares '000	2012 $'000	2011 $'000
(a) Share capital					
Ordinary shares					
Fully paid	(b),(c)	410,970	254,038	840,317	675,998
Other equity securities	(d)	---	---	2,951	2,951
Total contributed equity		410,970	254,038	843,268	678,949

(b) Movements in ordinary share capital

2011 Date	Details	Notes	Number of shares	$'000
1 July 2010	Opening balance		253,122,552	668,810
22 October 2010	Dividend reinvestment plan issue	(f)	491,274	3,970
21 April 2011	Dividend reinvestment plan issue	(f)	423,761	3,218
30 June 2011	Balance		254,037,587	675,998

2012 Date	Details	Notes	Number of shares	$'000
1 July 2011	Opening balance		254,037,587	675,998
23 September 2011	Non-controlling interest	(g)	1,064,516	3,960
19 April 2012	Dividend reinvestment plan issue	(f)	515,261	1,399
19 April 2012	Dividend reinvestment plan issue (underwritten)	(f)	2,270,875	6,246
29 June 2012	Rights issue	(h)	153,081,334	156,143
				843,746
	Less: Transaction costs arising on rights issue	(h)		(4,898)
	Deferred tax credit recognised directly in equity	(h)		1,469
30 June 2012	Balance		410,969,573	840,317

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(d) Other equity securities

The amount shown for other equity securities is the value of the options issued in relation to the Element acquisition.

(e) Executive performance share plan

The Billabong Executive Performance Share Plan – Australia trust and the Billabong Executive Performance Share Plan trust holds 2,662,810 (2011: 2,404,551) shares on issue at the end of the year. Refer to note 45 for further information.

(f) Dividend reinvestment plan

The Board has not declared a final ordinary dividend for the year ended 30 June 2012 and does not expect to declare an interim ordinary dividend for the half-year ended 31 December 2012. The Board confirms that the dividend policy will be reviewed thereafter. The Dividend Reinvestment Plan (DRP) is suspended until such time as the dividend policy review has been undertaken.

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Note 29. Contributed equity (continued)

(g) Transactions with non-controlling interests

On 23 September 2011 the Group acquired the remaining 50% of the issued share capital of Surfection Pty Ltd for a purchase consideration of $4.0 million issued as ordinary shares of Billabong International Limited. The Group now controls 100% of the issued share capital of Surfection Pty Ltd. The Group recognised a decrease in non-controlling interests of $3.7 million and a decrease in equity attributable to owners of the parent of $0.3 million. The effect of changes in the ownership interest of Surfection Pty Ltd on the equity attributable to owners of the Group during the year is summarised as follows:

	2012 $'000	2011 $'000
Carrying amount of non-controlling interests acquired	3,649	---
Consideration paid through the issue of ordinary shares of Billabong International Limited to non-controlling interests	(3,960)	---
Excess of consideration paid recognised in the transactions with non-controlling interests reserve within equity	(311)	---

(h) Rights issue

Institutional Entitlement Offer
On 21 June 2012 the Company invited eligible institutional shareholders to participate in an accelerated non-renounceable pro-rata entitlement offer to subscribe for 6 new ordinary shares for every 7 existing ordinary shares at an issue price of $1.02 per new share with such shares to be issued on, and rank for dividends after 29 June 2012. As a result, 153.1 million new shares were issued, resulting in gross cash proceeds of $156.1 million. The entitlement offer was fully underwritten by Goldman Sachs Australia Pty Ltd and Deutsche Bank AG, Sydney Branch.

Retail Entitlement Offer
On 29 June 2012 the Company invited eligible retail shareholders to participate in an accelerated non-renounceable pro-rata entitlement offer to subscribe for 6 new ordinary shares for every 7 existing ordinary shares at an issue price of $1.02 per new share with such shares to be issued on, and rank for dividends after 27 July 2012. The rights issue has therefore not been included in equity as at 30 June 2012. Refer to Note 41 for further information.

Expenses Arising From Rights Issue
Costs incurred in relation to the rights issue up to and including 30 June 2012 were $4.9 million ($3.4 million net of deferred tax credits recognised directly in equity). Directly attributable equity raising costs incurred have been recognised net of any tax effects directly in equity, and therefore do not impact earnings for the year ended 30 June 2012.

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Note 29. Contributed equity (continued)

(i) Capital risk management

The Group's policy is to maintain a strong capital base so as to preserve investor, creditor and market confidence and to sustain the future development of the business.

The Group defines capital base as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet (including non-controlling interests) plus net debt.

During 2012, the Group's strategy, which was unchanged from 2011, was to maintain a conservative gearing ratio for the Group. Consistent with this strategy, in 2012 the Group raised approximately $156.1 million via a rights issue, and $274.1 million (net of cash divested and transaction costs) via the sale of 51.5% of Nixon. The proceeds from the sale of 51.5% of Nixon were used to reduce the amount of outstanding drawn debt. This strengthened the Group's balance sheet in the current operating environment and ensured a conservative gearing ratio is maintained. The gearing ratios at 30 June 2012 and 30 June 2011 were as follows:

	Notes	**2012 $'000**	2011 $'000
Total borrowings	22, 25	478,157	613,165
Less: cash and cash equivalents	11	(317,263)	(144,858)
Net debt		160,894	468,307
Total equity		1,027,265	1,196,839
Total capital		1,188,159	1,665,146
Gearing ratio		14%	28%

The decrease in the gearing ratio during 2012 resulted primarily from the rights issue (included in cash and cash equivalents as at 30 June 2012) and the sale of 51.5% of Nixon.

Billabong International Limited has complied with the financial covenants of its borrowing facilities during the years ended 30 June 2012 and 30 June 2011.

Note 30. Treasury shares, reserves and retained profits

	2012 $'000	2011 $'000
(a) Treasury shares	(27,935)	(30,291)
Movement:		
Balance 1 July	(30,291)	(30,767)
Treasury shares held by employee share plan trusts	(2,665)	(4,446)
Employee share scheme issue	5,021	4,922
Balance 30 June	(27,935)	(30,291)

Treasury shares are shares in Billabong International Limited that are held by the Billabong Executive Performance Share Plan – Australia trust and the Billabong Executive Performance Share Plan trust for the purpose of issuing shares under the Billabong Executive Performance Share Plan (see note 45 for further information).

Date	Details	Number of shares
1 July 2010	Balance	2,215,751
	Acquisition of shares by the employee share plan trusts	570,000
	Employee share scheme issue	(381,200)
30 June 2011	Balance	2,404,551
	Acquisition of shares by the employee share plan trusts	736,139
	Employee share scheme issue	(477,880)
30 June 2012	Balance	2,662,810

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Note 30. Treasury shares, reserves and retained profits (continued)

	2012 $'000	2011 $'000
(b) Reserves		
Option reserve	9,375	8,814
Other reserves		
Foreign currency translation reserve	(115,395)	(112,921)
Cash flow hedge reserve	(1,006)	(5,443)
Total other reserves	(116,401)	(118,364)
Other equity reserve	(26,706)	(8,933)
Total reserves	(133,732)	(118,483)

	2012 $'000	2011 $'000
Movements in reserves:		
Option reserve		
Balance 1 July	8,814	7,844
Share-based payment expense	5,582	5,892
Employee share scheme issue	(5,021)	(4,922)
Balance 30 June	9,375	8,814
Foreign currency translation reserve		
Balance 1 July	(112,921)	(50,652)
Net investment hedge	5,299	(10,064)
Currency translation differences arising during the year	(7,773)	(52,205)
Balance 30 June	(115,395)	(112,921)
Cash flow hedge reserve		
Balance 1 July	(5,443)	(1,991)
Revaluation - gross	1,561	(5,332)
Deferred tax	(536)	1,934
Transfer to inventory - gross	5,069	689
Deferred tax	(1,840)	(496)
Effect of exchange rate changes	183	(247)
Balance 30 June	(1,006)	(5,443)
Other equity reserve		
Balance 1 July	(8,933)	(9,726)
Put/call option in relation to acquisition of non-controlling interest	(17,462)	---
Transactions with non-controlling interest	(311)	---
Reclassification of deferred tax	---	793
Balance 30 June	(26,706)	(8,933)

(c) Retained profits

Movements in retained profits were as follows:

	2012 $'000	2011 $'000
Balance 1 July	663,289	630,290
Net (loss)/profit for the year	(275,649)	119,139
Dividends (note 31)	(40,670)	(86,140)
Balance 30 June	346,970	663,289

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Note 30. Treasury shares, reserves and retained profits (continued)

(d) Nature and purpose of reserves

Option reserve
The option reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised;
- the grant date fair value of shares issued to employees; and
- the issue of shares held by the Billabong Executive Performance Share Plan – Australia trust and the Billabong Executive Performance Share Plan trust to employees.

Foreign currency translation reserve
Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d).

Cash flow hedge reserve
The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(o). Amounts are recognised in the income statement when the associated hedged transaction affects profit and loss.

Other equity reserve
This reserve is in relation to the symmetrical put and call options at the present value of the expected redemption amount for the acquisition of the non-controlling interest of Surfstitch Pty Ltd and Surfstitch (Europe) Pty Ltd.

Note 31. Dividends

	Parent entity	
	2012 $'000	2011 $'000
(a) Ordinary shares		
2011 final dividend of 13.0 cents per fully paid share paid on 21 October 2011 (2010 final dividend of 18.0 cents per fully paid share paid on 22 October 2010)		
Partially franked to 25% based on tax paid at 30%	33,025	---
Partially franked to 50% based on tax paid at 30%	---	45,562
2012 interim dividend of 3.0 cents per fully paid share paid on 19 April 2012 (2011 interim dividend of 16.0 cents per fully paid share paid on 21 April 2011)		
Unfranked based on tax paid at 30%	7,645	---
Partially franked to 50% based on tax paid at 30%	---	40,578
Total dividends paid	40,670	86,140
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the year ended 30 June 2012 is as follows:		
Paid in cash	39,271	78,952
Satisfied by issue of shares (note 29(b))	1,399	7,188
	40,670	86,140
(b) Dividends not recognised at year end		
The Board has not declared a final ordinary dividend for the year ended 30 June 2012 (2011: 13.0 cents partially franked to 25% based on tax paid at 30%).	---	33,025

(c) Dividend reinvestment plan

The Board has not declared a final ordinary dividend for the year ended 30 June 2012 and does not expect to declare an interim ordinary dividend for the half-year ended 31 December 2012. The Board confirms that the dividend policy will be reviewed thereafter. The Dividend Reinvestment Plan (DRP) is suspended until such time as the dividend policy review has been undertaken.

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Note 31. Dividends (continued)

(d) Franked dividends

The franked portions of the final dividends recommended after 30 June 2012 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2013.

	Parent entity	
	2012 $'000	2011 $'000
Franking credits available for subsequent financial years to the equity holders of the parent entity based on a tax rate of 30% (2011: 30%)	1,907	598

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:
(a) franking credits that will arise from the payment of the amount of the provision for income tax;
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

As the Board has not declared a final ordinary dividend for the year ended 30 June 2012, there is no impact on the franking account in relation to dividends recommended but not recognised as a liability at year end (2011: reduction of $3.5 million).

Note 32. Derivative financial instruments

	Notes	**2012 $'000**	2011 $'000
Current assets			
Forward foreign exchange contracts – cash flow hedges	14	1,879	551
Total current derivative financial instrument assets		1,879	551
Current liabilities			
Forward foreign exchange contracts – cash flow hedges	21	384	3,363
Other derivative liability *	21	1,411	---
Total current derivative financial instrument liabilities		1,795	3,363
Non-current liabilities			
Interest rate swap contracts – cash flow hedges	27	---	2,371
Other derivative liability *	27	24,298	8,130
Total non-current derivative financial instrument liabilities		24,298	10,501
Net derivative financial instruments		(24,214)	(13,313)

***** The other derivative liability relates to the symmetrical put and call options relating to the acquisition of the non-controlling interest of Surfstitch Pty Ltd and Surfstitch (Europe) Pty Ltd. The other derivative liability was restated during the year ended 30 June 2012 taking into account the latest Board approved forecast. This resulted in a decrease of approximately $0.3 million in the underlying other derivative liability relating to Surfstitch Pty Ltd. The adjustment has been recognised in the income statement. Refer to note 6.

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Note 32. Derivative financial instruments (continued)

(a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 2).

(i) Interest rate swap contracts – cash flow hedges
On 29 June 2012 all interest rate swaps were terminated.

The Group has previously entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The contracts were settled on a net basis and the net amount receivable or payable at the reporting date was included in other debtors or other creditors. At 30 June 2011 balance date the notional principal amount of the interest rate swap contracts covered 48% of outstanding USD denominated borrowings. The contract required settlement of net interest receivable or payable every three months. The settlement dates coincided with the dates on which interest was payable on the underlying debt.

Details of the interest rate swap contracts outstanding at 30 June 2011 are set out below:

Notional principal amount	Expiry	Fixed interest rate	90 day bank bill rate at 30 June 2011
US$60 million	July 2013	1.10%	0.2%
US$30 million	October 2013	1.25%	0.2%
US$100 million	October 2014	1.63%	0.2%

The gain or loss from remeasuring the hedging instruments at fair value is deferred to equity in the cash flow hedge reserve, to the extent that the hedge is effective, and reclassified into the income statement when the hedged interest expense is recognised. The ineffective portion is recognised in the income statement immediately.

At balance date the fair value of the interest rate swap contracts were nil (2011: US$2.5 million derivative financial instrument liabilities).

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Note 32. Derivative financial instruments (continued)

(a) Instruments used by the Group (continued)

(ii) Forward exchange contracts – cash flow hedges – product purchases

From time to time and in order to protect against exchange rate movements, the Group enters into forward exchange contracts to purchase USD, EUR and AUD. The contracts are hedging highly probable forecast purchases for the upcoming season and are timed to mature when major shipments of inventory are scheduled to arrive.

The cash flows are expected to occur at various dates within one year from the balance date. At balance date, the details of outstanding contracts are:

	Buy USD		Average exchange rate	
	2012 US$'000	2011 US$'000	**2012**	2011
0 – 6 Months				
Sell Euro	27,000	53,300	1.3355	1.3833
Sell AUD	18,500	25,000	1.0184	1.0360
Sell BRL	---	2,838	---	0.5857
Sell Yen	5,035	1,194	0.0130	0.0122
Sell ZAR	2,060	2,325	0.1228	0.1396
6 – 12 Months				
Sell Euro	18,000	22,400	1.2586	1.3932
Sell Yen	4,300	6,867	0.0127	0.0123
Sell ZAR	140	170	0.1222	0.1369

	Buy Euro		Average exchange rate	
	2012 EUR'000	2011 EUR'000	**2012**	2011
0 – 6 Months				
Sell GBP	6,729	5,996	0.8321	0.8426

	Buy AUD		Average exchange rate	
	2012 AU$'000	2011 AU$'000	**2012**	2011
0 – 6 Months				
Sell NZD	3,050	3,250	0.7769	0.7760
6 – 12 Months				
Sell NZD	750	750	0.7844	0.7821

Amounts disclosed above represent currency acquired, measured at the contracted rate.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flow occurs, the Group adjusts the initial measurement of the inventory recognised in the balance sheet by the related amount deferred in equity.

At balance date these contracts were net assets of $1.5 million (2011: net liabilities of $2.8 million).

(iii) Hedge of net investment in foreign entity

The foreign exchange gain of $5.3 million (2011: loss of $10.1 million) on translation of inter-company loans to AUD at reporting date is transferred to the foreign currency translation reserve, in equity (note 30(b)). There was no ineffectiveness to be recorded from net investments in foreign entity hedges.

(b) Risk exposures

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk and about the methods and assumptions used in determining fair values is provided in note 2.

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Note 33. Key management personnel disclosures

(a) Directors

The following persons were Directors of Billabong International Limited during the financial year:

(i) Non-Executive Chairman
E.T. Kunkel

(ii) Executive Directors
L. Inman, Managing Director and Chief Executive Officer *
D. O'Neill, Chief Executive Officer **
P. Naude, General Manager, Billabong Group President Americas

(iii) Non-Executive Directors
A.G. Froggatt
M.A. Jackson ***
F.A. McDonald
G.S. Merchant
C. Paull
S. Pitkin ****

* L. Inman was appointed Managing Director and Chief Executive Officer on 14 May 2012.
** D. O'Neill ceased employment effective 12 May 2012.
*** M.A. Jackson resigned effective 25 October 2011.
**** S. Pitkin was appointed as a Director on 28 February 2012.

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	*Position*	*Employer*
F. Fogliato	General Manager, Billabong Group Europe	GSM Europe Pty Ltd
S. North	General Manager, Billabong Group Australasia	GSM (Operations) Pty Ltd
C. White	Chief Financial Officer	GSM (Operations) Pty Ltd

(c) Key management personnel compensation

	2012 $'000	2011 $'000
Short-term employee benefits	5,490	6,964
Long-term employee benefits – long service leave	135	279
Termination benefits	2,510	---
Post-employment benefits	129	177
Share-based payments	48	460
	8,312	7,880

Detailed remuneration disclosures are provided in the Remuneration Report.

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Note 33. Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options
Details of options provided as remuneration and shares issued on the exercise of such options, together with the terms and conditions of the options, can be found in the Remuneration Report.

(ii) Options holdings
The number of options over ordinary shares in the Company held during the financial year by each Director of Billabong International Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2012 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Billabong International Limited						
L. Inman ^	---	---	---	---	---	---
D. O'Neill ^^	629,007	---	---	(629,007)	---	---
P. Naude	524,170	---	---	---	524,170	---
Other key management personnel of the Group						
F. Fogliato	314,503	---	---	---	314,503	---
S. North	314,503	---	---	---	314,503	---
C. White	314,503	---	---	---	314,503	---

^ L. Inman was appointed Managing Director and Chief Executive Officer on 14 May 2012.
^^ D. O'Neill employment ceased on 12 May 2012.

2011 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Billabong International Limited						
D. O'Neill	629,007	---	---	---	629,007	---
P. Naude	524,170	---	---	---	524,170	---
Other key management personnel of the Group						
F. Fogliato	314,503	---	---	---	314,503	---
S. North	314,503	---	---	---	314,503	---
C. White	314,503	---	---	---	314,503	---

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Note 33. Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel (continued)

(iii) Rights holdings

Details of rights provided as remuneration and shares issued on the vesting of such rights, together with the terms and conditions of the rights, can be found in the Remuneration Report. The number of rights over ordinary shares in the Company held during the financial year by each Director of Billabong International Limited and other key management personnel of the Group are set out below.

2012 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Billabong International Limited						
L. Inman ^	---	---	---	---	---	---
D. O'Neill ^^	278,609	118,735	---	(397,344)	---	---
P. Naude	241,450	103,168	---	(62,020)	282,598	---
Other key management personnel of the Group ^^^						
F. Fogliato	129,884	61,928	---	(35,200)	156,612	---
S. North	131,337	65,803	---	(35,852)	161,288	---
C. White	143,796	63,582	---	(41,440)	165,938	---

^ L. Inman was appointed Managing Director and Chief Executive Officer on 14 May 2012.
^^ D. O'Neill employment ceased on 12 May 2012.
^^^ Includes rights granted under the Executive Performance Share Plan and the Short Term Incentive Deferral

2011 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Billabong International Limited						
D. O'Neill	216,237	118,735	---	(56,363)	278,609	---
P. Naude	187,027	103,168	---	(48,745)	241,450	---
Other key management personnel of the Group						
F. Fogliato	106,154	51,400	---	(27,670)	129,884	---
C. Kypriotis *	55,042	---	---	(55,042)	---	---
S. North	108,119	51,400	---	(28,182)	131,337	---
J. Schillereff	22,931	10,793	(6,518)	(8,399)	18,807	---
C. White	124,964	51,400	---	(32,568)	143,796	---

* C. Kypriotis resigned effective 31 January 2011.

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Note 33. Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel (continued)

(iv) Share holdings

The numbers of ordinary shares in the Company held during the financial year by each Director of Billabong International Limited and other key management personnel of the Group, including their personally related entities, are set out below.

2012 Name	Balance at the start of the year	Received on the exercise of rights holdings	Received on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Billabong International Limited					
E.T. Kunkel	116,435	---	---	---	116,435
L. Inman ^	---	---	---	---	---
D. O'Neill ^^	1,362,016	---	---	(1,362,016)	---
A.G. Froggatt	7,505	---	---	---	7,505
M.A. Jackson ^^^	280,175	---	---	(280,175)	---
F.A. McDonald	153,046	---	---	65,000	218,046
G.S. Merchant	37,770,098	---	---	31,935,365	69,705,463
P. Naude	1,045,988	---	---	---	1,045,988
C. Paull	2,973,289	---	---	---	2,973,289
S. Pitkin ^^^^	---	---	---	---	---
Other key management personnel of the Group					
F. Fogliato	25,191	---	---	---	25,191
S. North	45,855	---	---	---	45,855
C. White	10,000	---	---	---	10,000

^ L. Inman was appointed Managing Director and Chief Executive Officer on 14 May 2012.

^^ D. O'Neill employment ceased on 12 May 2012 – details of D. O'Neill's share holdings subsequent to his cessation of employment are not required to be disclosed.

^^^ M.A. Jackson resigned effective 25 October 2011 – details of M.A. Jacksons' share holdings subsequent to her resignation are not required to be disclosed.

^^^^ S. Pitkin was appointed as a Director on 28 February 2012.

2011 Name	Balance at the start of the year	Received on the exercise of rights holdings	Received on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Billabong International Limited					
E.T. Kunkel	116,435	---	---	---	116,435
D. O'Neill	1,117,516	---	---	244,500	1,362,016
A.G. Froggatt	7,505	---	---	---	7,505
M.A. Jackson	275,838	---	---	4,337	280,175
F.A. McDonald	153,046	---	---	---	153,046
G.S. Merchant	37,770,098	---	---	---	37,770,098
P. Naude	1,105,988	---	---	(60,000)	1,045,988
C. Paull	2,973,289	---	---	---	2,973,289
Other key management personnel of the Group					
F. Fogliato	25,191	---	---	---	25,191
C. Kypriotis *	21,211	---	---	(21,211)	---
S. North	70,452	---	---	(24,597)	45,855
J. Schillereff	47,548	6,518	---	(23,739)	30,327
C. White	10,000	---	---	---	10,000

* C. Kypriotis resigned effective 31 January 2011 – details of C. Kypriotis' share holdings subsequent to his resignation are not required to be disclosed.

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Note 33. Key management personnel disclosures (continued)

(e) Other transactions with Directors and other key management personnel

Directors of Billabong International Limited
During 2011 and 2012 Burleigh Point Limited utilised property of Director P. Naude for use in certain advertising and promotional activities. There was no consideration paid by Burleigh Point Limited to P. Naude for use of the property.

A subsidiary of the Company leases a retail store in South Africa from the wife of Director P. Naude. The rental agreement is based on normal commercial terms and conditions.

Note 34. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditors of the Group, its related practices and non-related audit firms:

	2012 $'000	2011 $'000
(a) PwC Australia		
(i) Audit and other assurance services		
Audit and review of financial reports	785	736
Other assurance services	150	133
Total remuneration for audit and other assurance services	935	869
(ii) Taxation services		
International tax consulting together with separate tax advice on acquisitions and disposals	2,106	670
Total remuneration for taxation services	2,106	670
(iii) Other services		
Due diligence services	389	162
General accounting advice	33	---
Total remuneration for other services	422	162
Total remuneration of PwC Australia	3,463	1,701
(b) Network firms of PwC Australia		
(i) Audit and other assurance services		
Audit and review of financial reports	1,153	990
Other assurance services	174	232
Total remuneration for audit and other assurance services	1,327	1,222
(ii) Taxation services		
International tax consulting together with separate tax advice on acquisitions and disposals	1,360	433
Total remuneration for taxation services	1,360	433
(iii) Other services		
Due diligence services	---	43
General accounting advice	---	61
Total remuneration for other services	---	104
Total remuneration of Network firms of PwC Australia	2,687	1,759
Total auditors' remuneration	6,150	3,460

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Note 34. Remuneration of auditors (continued)

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis.

The Group and its Audit Committee are committed to ensuring the independence of the external auditors, both in appearance as well as in fact. Accordingly, significant attention is directed toward the appropriateness of the external auditors to perform services other than the audit. A formal pre-approval policy of audit and non-audit services provided by the external auditor has been adopted in this regard such that proposed services may either (1) be pre-approved without consideration of specific case-by-case services by the Audit Committee ("general pre-approval"), for example statutory or financial audits/reviews; or (2) require the specific pre-approval of the Audit Committee ("specific pre-approval"), for example taxation and other services. The Audit Committee believes that the combination of these two approaches, and the inclusion of prohibited services, in this policy will result in an effective and efficient procedure to pre-approve services performed by the external auditor.

Note 35. Contingencies

Details and estimates of maximum amounts of contingent liabilities as at 30 June 2012 are as follows:

Guarantees
For information about guarantees given by entities within the group, including the parent entity, please refer to notes 40 and 46.

Contingent Consideration
As at 30 June 2012 the deferred consideration relating to the Quiet Flight, Sector 9, DaKine, RVCA, Two Seasons, Swell and SDS/Jetty Surf (2011: Quiet Flight, Nixon, Xcel, Sector 9, DaKine, RVCA, Two Seasons, Swell and SDS/Jetty Surf) acquisitions has been fully recognised taking into account the latest Board approved forecast. Refer to note 28.

At future reporting dates the Group will review these payments and restate them should the earnings forecasts change or management retention conditions (if applicable) are not achieved (which may result in additional or reduced consideration being payable).

Trade Letters of Credit
The Group had $21.8 million letters of credit in favour of suppliers executed but undrawn as at 30 June 2012 (2011: $37.6 million). The letters of credit related to the purchase of inventory in the 2012-13 financial year and are part of the ordinary course of business.

No material losses are anticipated in respect of any of the above contingent liabilities.

Note 36. Commitments

	2012 $'000	2011 $'000
(a) Lease commitments		
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	100,366	102,277
Later than one year but not later than five years	273,467	300,084
Later than five years	42,559	54,770
	416,392	457,131
Representing:		
Non-cancellable operating leases	415,755	457,089
Future finance charges on finance leases	637	42
	416,392	457,131

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Note 36. Commitments (continued)

(a) Lease commitments (continued)

(i) Operating leases

The Group leases various retail stores, offices and warehouses under non-cancellable operating leases. The leases have varying terms, escalating clauses and renewal rights. On renewal, the terms of the leases are renegotiated. In some instances early termination of these operating leases is possible with negotiation with the relevant landlord through payment of an agreed amount.

	2012 $'000	2011 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	100,255	102,235
Later than one year but not later than five years	273,024	300,084
Later than five years	42,476	54,770
	415,755	457,089

(ii) Finance leases

The Group leases various plant and equipment with a carrying amount of $11.3 million (2011: $4.2 million).

	2012 $'000	2011 $'000
Commitments in relation to finance leases are payable as follows:		
Within one year	1,550	1,267
Later than one year but not later than five years	5,975	16
Later than five years	1,120	---
Minimum lease payments	8,645	1,283
Future finance charges	(637)	(42)
Total lease liabilities recognised as a liability	8,008	1,241
Representing lease liabilities:		
Current (note 22)	1,438	1,225
Non-current (note 25)	6,570	16
	8,008	1,241
The present value of finance lease liabilities is as follows:		
Within one year	1,438	1,225
Later than one year but not later than five years	5,533	16
Later than five years	1,037	---
Minimum lease payments	8,008	1,241

	2012 $'000	2011 $'000
(b) Product purchase commitments		
Contractual obligation for future product purchases – not recognised as a liability:		
Within one year	25,167	---
Later than one year but not later than five years	104,648	---
Later than five years	43,842	---
	173,657	---

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Note 37. Related party transactions

(a) Parent entities

The ultimate parent entity within the Group is Billabong International Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 39.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 33.

(d) Transactions with other related parties

The following transactions occurred with related parties:

	2012 $'000	2011 $'000
Purchases of goods		
Purchases of premium watches, apparel and accessories	2,859	---

(e) Outstanding balances arising from purchases of goods and transactions associated with the sale of Nixon

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	2012 $'000	2011 $'000
Current receivables	14,785	---
Current payables	18,329	---

There is no allowance account for impaired receivables in relation to any outstanding balances and no expense has been recognised in respect of impaired receivables due from related parties.

(f) Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Outstanding balances are unsecured and are repayable in cash.

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Note 38. Business combinations

Purchase consideration – cash outflow

	2012 $'000	2011 $'000
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	---	203,610
Less: Cash balances acquired	---	(258)
Add-back: Bank overdraft	---	3,461
	---	206,813
Payments relating to prior year acquisitions and other immaterial current year acquisitions	84,232	8,251
Outflow of cash – investing activities	84,232	215,064

Acquisition related costs
Acquisition related costs of $2.4 million (2011: $8.8 million) are included in 'other expenses' in the income statement.

2012

There were no business combinations that were of a material nature for the year ended 30 June 2012. The payments for purchase of subsidiaries and businesses, net of cash acquired in the consolidated cash flow statement is in relation to the deferred consideration payments for Nixon and Xcel, and other immaterial current year acquisitions.

On 3 August 2011 the majority of the deferred consideration payment in relation to Nixon was paid with the remaining amount outstanding subject to the finalisation of a review of the taxation treatment of the payment in the hands of the recipients. The remaining amount outstanding was paid on 27 January 2012 and therefore no further amounts are due in relation to this acquisition.

On 23 September 2011 the Group acquired the remaining 50% of the issued share capital of Surfection Pty Ltd. The Group now controls 100% of the issued share capital of Surfection Pty Ltd. Refer to note 29(g) for further information.

On 8 June 2012 the deferred consideration payment in relation to Xcel was paid in full and therefore no further amounts are due in relation to this acquisition.

Prior Period (2011) - Update on 30 June 2011 Full Financial Report note 35

West 49 Inc.

(a) Summary of acquisition

On 1 September 2010 Billabong International Limited acquired 100% of the shares of West 49 Inc., a leading Canadian specialty retailer of apparel, footwear, accessories and equipment related to the youth action sports lifestyle. The acquisition has increased the Group's market share in Canada.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	$'000
Purchase consideration:	
Cash paid	94,038
Total purchase consideration	94,038

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Note 38. Business combinations (continued)

(a) Summary of acquisition (continued)

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $'000
Other receivables	1,224
Inventory	31,572
Plant and equipment	19,894
Prepayments	704
Deferred tax assets	1,262
Bank overdrafts	(3,461)
Trade and other payables	(54,891)
Provision for contingent tax liabilities	(14,299)
Identifiable intangible assets	286
Net identifiable assets acquired	(17,709)
Add: goodwill	111,747
Net assets acquired	94,038

Provision for contingent tax liabilities represents contingent liabilities recognised at fair value. The assessment of the amount of contingent tax liabilities involves the exercise of management judgements concerning potential future events.

Goodwill is attributable to the workforce and synergies expected to arise after the acquisition of the business.

The acquired business contributed revenues of $152.8 million and net loss after tax (including $3.2 million of acquisition related costs) of $5.6 million to the Group for the period from acquisition to 30 June 2011.

The 'West 49 Inc.' acquisition was disclosed provisionally in the full financial report for the year ended 30 June 2011. As part of the finalisation of the acquisition, the fair value of identifiable assets and liabilities review has now been completed and adjustments were made to inventory, other payables and the provision for contingent tax liabilities, which were the only significant adjustments to the provisional values disclosed in the full financial report for the year ended 30 June 2011.

Bay Action, RVCA, Surfection, SDS/Jetty Surf and Rush Surf

(a) Summary of acquisitions

On 2 July 2010 GSM (Operations) Pty Ltd and Pineapple Trademarks Pty Ltd acquired the assets and certain liabilities of Bay Action Pty Ltd, Byron Concepts Pty Ltd, Big Kahoona Pty Ltd and the Timperley Partnership, a number of retail stores primarily featuring surf and related lifestyle apparel and accessories. The acquisition has increased the Group's market share in the Australian retail sector.

On 21 July 2010 Seal Trademarks Pty Ltd, GSM Add 2, Inc. and GSM Investments Ltd acquired the assets and certain liabilities of RVCA Corporation, RVCA Platform, LLC, VASF LLC and RVCA LA, LLC, a progressive art and design-driven brand. The acquisition has provided the opportunity to further expand the North American and international sales representation through the Group's distribution network.

On 23 September 2010 GSM (Operations) Pty Ltd acquired 50% of the issued share capital of Surfection Pty Ltd, a retail chain primarily featuring surf and related lifestyle apparel and accessories, and control of the entity through the acquisition of greater than 50% of the voting rights. The acquisition has increased the Group's market share in the Australian retail sector. Surfection Pty Ltd has been fully consolidated from the date on which control was transferred to the Group.

On 8 November 2010 Board Sports Retail Pty Ltd and Pineapple Trademarks Pty Ltd acquired the assets and certain liabilities of Jetty Surf Pty Ltd, a retail chain operating under the banners SDS and Jetty Surf, primarily featuring surf and related lifestyle apparel and accessories. The acquisition has increased the Group's market share in the Australian retail sector.

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Note 38. Business combinations (continued)

(a) Summary of acquisition (continued)

On 26 November 2010 GSM (Operations) Pty Ltd and Pineapple Trademarks Pty Ltd acquired the assets and certain liabilities of Rush Lifestyle Australia Pty Ltd, Rush Lifestyle Clothing Australia Pty Ltd and W R James Pty Ltd, a retail chain primarily featuring surf and related lifestyle apparel and accessories. The acquisition has increased the Group's market share in the Australian retail sector.

Details of the aggregated purchase consideration, the net assets acquired and goodwill are as follows:

	$'000
Purchase consideration:	
Cash paid	109,572
Deferred consideration	37,783
Contingent consideration	40,388
Total purchase consideration	187,743

The assets and liabilities recognised as a result of the acquisitions are as follows:

	Fair value $'000
Cash and cash equivalents	258
Trade and other receivables	6,200
Inventory	30,776
Plant and equipment	7,638
Prepayments	230
Deferred tax assets	5,428
Employee entitlements	(1,248)
Trade and other payables	(29,064)
Deferred tax liabilities	(13)
Identifiable intangible assets	30,293
Net identifiable assets acquired	50,498
Less: non-controlling interests	(3,649)
Add: goodwill	140,894
Net assets acquired	187,743

Goodwill is attributable to the workforce and synergies expected to arise after the acquisition of the businesses. Goodwill is only deductible in the United States of America for tax purposes. For acquisitions that occurred in the year ended 30 June 2011, up to $75.8 million will be deductible for tax purposes.

The acquired businesses contributed revenues of $160.5 million and net profit after tax and non-controlling interests (including $5.2 million of acquisition related costs) of $5.2 million to the Group for the period from the date of each acquisition to 30 June 2011.

(i) Deferred and contingent consideration

In relation to the acquisition of the assets and certain liabilities of RVCA Corporation, RVCA Platform, LLC, VASF LLC and RVCA LA, LLC, additional deferred and contingent consideration will be payable in cash on or after 1 July 2015 based on the earnings achieved for the year ending 30 June 2015. In relation to the acquisition of the assets and certain liabilities of Jetty Surf Pty Ltd, additional pre-determined deferred consideration will be payable in cash from 1 November 2013. As at their respective acquisition dates a present value amount totalling $78.2 million was recognised as a non-current deferred consideration liability for these acquisitions of which $37.8 million is deferred and $40.4 million is contingent consideration. The aggregated range of the contingent consideration is a minimum of nil and there is no prescribed maximum. Refer to note 28 for additional information on deferred and contingent consideration.

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Note 38. Business combinations (continued)

(a) Summary of acquisitions (continued)

(ii) Acquired receivables
The fair value of acquired trade and other receivables is $7.4 million. The gross contractual amount of the acquired trade receivables is $9.9 million and an amount of $2.5 million is considered to be uncollectible as at the acquisition date.

(iii) Non-controlling interests
The Group elected to recognise the non-controlling interests for Surfection Pty Ltd at fair value.

(iv) Revenue and profit contribution
If the acquisitions had occurred on 1 July 2010, consolidated revenue and consolidated net profit after tax and non-controlling interests (including acquisition related costs) for the year ended 30 June 2011 would have been $1,770.5 million and $114.0 million respectively based on best estimates.

Note 39. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following significant subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity		Country of incorporation	Class of shares	Equity holding **	
				2012 %	2011 %
Amazon (New Zealand) Pty Ltd	*	Australia	Ordinary	100	100
Beach Culture International Pty Ltd		Australia	Ordinary	100	100
Board Sports Retail Pty Ltd	*	Australia	Ordinary	100	100
Burleigh Point, Ltd		USA	Ordinary	100	100
GSM (Canada) Pty Ltd	*	Australia	Ordinary	100	100
GSM (Central Sourcing) Pty Ltd	*	Australia	Ordinary	100	100
GSM (Duranbah) Pty Ltd		Australia	Ordinary	100	100
GSM (Europe) Pty Ltd	*	Australia	Ordinary	100	100
GSM (Japan) Limited		Japan	Ordinary	100	100
GSM (NZ Operations) Limited		New Zealand	Ordinary	100	100
GSM (Operations) Pty Ltd	*	Australia	Ordinary	100	100
GSM (Trademarks) Pty Ltd		Australia	Ordinary	100	100
GSM Trading (South Africa) Pty Ltd	*	Australia	Ordinary	100	100
GSM Brasil Ltda		Brazil	Ordinary	100	100
GSM England Retail Ltd		England	Ordinary	100	100
GSM Espana Operations Sociedad Limitada		Spain	Ordinary	100	100
GSM Retail Inc		USA	Ordinary	100	100
GSM Rocket Australia Pty Ltd		Australia	Ordinary	100	100
GSM Trading (Singapore) Pty Ltd		Australia	Ordinary	100	100
Pineapple Trademarks Pty Ltd	*	Australia	Ordinary	100	100
Rocket Trademarks Pty Ltd		Australia	Ordinary	100	100
Seal Trademarks Pty Ltd	*	Australia	Ordinary	100	100
Surfection Pty Ltd		Australia	Ordinary	100	50
Surfstitch Pty Ltd		Australia	Ordinary	20	20
Surfstitch (Europe) Pty Ltd		Australia	Ordinary	51	---
West 49 Inc		Canada	Ordinary	100	100

* These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 40.

** The proportion of ownership interest is equal to the proportion of voting power held, except for Surfstitch Pty Ltd where the Group has a controlling interest.

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Note 40. Deed of cross guarantee

Billabong International Limited, GSM (Europe) Pty Ltd, GSM (Operations) Pty Ltd, Pineapple Trademarks Pty Ltd, GSM (Central Sourcing) Pty Ltd, Amazon (New Zealand) Pty Ltd, GSM Trading (South Africa) Pty Ltd, Board Sports Retail Pty Ltd, Seal Trademarks Pty Ltd and GSM (Canada) Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained profits

The above companies represent a 'Closed Group' for the purposes of the Class Order.

Set out below are the condensed consolidated income statement, a consolidated statement of comprehensive income and a summary of movements in consolidated retained profits for the year ended 30 June 2012 of the Closed Group, consisting of Billabong International Limited, GSM (Europe) Pty Ltd, GSM (Operations) Pty Ltd, Pineapple Trademarks Pty Ltd, GSM (Central Sourcing) Pty Ltd, Amazon (New Zealand) Pty Ltd, GSM Trading (South Africa) Pty Ltd, Board Sports Retail Pty Ltd, Seal Trademarks Pty Ltd and GSM (Canada) Pty Ltd.

Prior year figures set out below represent the condensed consolidated income statement, a consolidated statement of comprehensive income and a summary of movements in consolidated retained profits for the year ended 30 June 2011 of the Closed Group, at that time consisting of the entities Billabong International Limited, GSM (Europe) Pty Ltd, GSM (Operations) Pty Ltd, GSM (Trademarks) Pty Ltd, Pineapple Trademarks Pty Ltd, GSM (Central Sourcing) Pty Ltd, Amazon (New Zealand) Pty Ltd, GSM Trading (South Africa) Pty Ltd, Board Sports Retail Pty Ltd, Seal Trademarks Pty Ltd and GSM (Canada) Pty Ltd.

	2012 $'000	2011 $'000
Income statement		
Revenue from continuing operations	1,025,541	838,542
Other income	81,268	2,906
Finance costs	(25,769)	(20,739)
Other expenses	(933,260)	(687,046)
Share of net profit after-tax of associate accounted for using the equity method	293	---
Profit before income tax	148,073	133,663
Income tax benefit/(expense)	23,603	(33,020)
Profit for the year	171,676	100,643
Loss attributable to non-controlling interests	1,032	1,094
Profit for the year attributable to the members of the closed group	172,708	101,737
Statement of comprehensive income		
Profit for the year	171,676	100,643
Other comprehensive income		
Changes in the fair value of cash flow hedges, net of tax	2,546	(3,340)
Exchange differences on translation of foreign operations	(7,281)	(25,597)
Net investment hedge, net of tax	(6,010)	(10,420)
Other comprehensive income for the year, net of tax	(10,745)	(39,357)
Total comprehensive income for the year	160,931	61,286
Loss attributable to non-controlling interests	1,032	1,094
Total comprehensive income for the year attributable to members of the closed group	161,963	62,380
Summary of movements in consolidated retained profits		
Retained profits at the beginning of the financial year	431,769	472,456
Profit for the year	172,708	101,737
Dividends paid	(40,670)	(86,140)
Retained profits at the end of the financial year	563,807	488,053

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Note 40. Deed of cross guarantee (continued)

(b) Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2012 and 30 June 2011 of the Closed Group, consisting of the entities as named above at each point in time.

	2012 $'000	2011 $'000
ASSETS		
Current assets		
Cash and cash equivalents	238,572	82,918
Trade and other receivables	149,859	199,650
Inventories	153,520	156,537
Current tax receivables	5,813	1,947
Other	8,146	9,940
Total current assets	555,910	450,992
Non-current assets		
Receivables	182,196	205,271
Other financial assets	775,316	490,440
Investment accounted for using the equity method	134,579	---
Property, plant and equipment	52,190	53,102
Intangible assets	200,548	292,767
Deferred tax assets	55,665	16,327
Other	4,968	5,297
Total non-current assets	1,405,462	1,063,204
Total assets	1,961,372	1,514,196
LIABILITIES		
Current liabilities		
Trade and other payables	174,425	135,005
Borrowings	150,831	1,161
Current tax liabilities	428	---
Provisions	21,979	6,006
Total current liabilities	347,663	142,172
Non-current liabilities		
Borrowings	241,676	245,511
Deferred tax liabilities	13,483	10,337
Provisions	22,682	2,935
Other	43,437	27,088
Total non-current liabilities	321,278	285,871
Total liabilities	668,941	428,043
Net assets	1,292,431	1,086,153
EQUITY		
Contributed equity	843,268	678,949
Reserves	(113,338)	(84,224)
Retained profits	563,807	488,053
Capital and reserves attributable to members of the closed group	1,293,737	1,082,778
Non-controlling interests	(1,306)	3,375
Total equity	1,292,431	1,086,153

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Note 41. Events occurring after the balance sheet date

On 20 July 2012 the Group announced the completion of the retail component of the accelerated non-renounceable pro-rata entitlement offer announced on 21 June 2012. The Group received the proceeds for the retail component on 26 July 2012 and applied these proceeds towards the repayment of debt drawn under its financing facilities.

On 24 July 2012 the Board received an indicative, non-binding and conditional proposal from TPG International LLC (TPG) to acquire all of the shares in the Company for $1.45 cash per share by way of a scheme of arrangement. This follows an earlier indicative, non-binding and conditional proposal received from TPG in February 2012 for $3.00 cash per share, subsequently increased to $3.30 cash per share. The latest TPG proposal follows a trading update to the market on 21 June 2012 and subsequent entitlement offer to shareholders increasing shares on issue from 255.1 million (in February 2012) to 478.9 million (in July 2012). Discussions between TPG and the Board are continuing and the proposal is subject to due diligence and the satisfaction of a number of other conditions. There is no guarantee that, following the due diligence process, a transaction will be agreed or that the Board will recommend an offer at the current proposed offer price. In fact, the Board does not believe that the proposal reflects the fundamental value of the Group in the context of a change of control transaction.

Other than the items mentioned above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Note 42. Reconciliation of loss/profit for the year to net cash inflow from operating activities

	2012 $'000	2011 $'000
(Loss)/profit for the year, before non-controlling interests	(276,681)	118,045
Depreciation and amortisation	47,691	41,931
Impairment of intangibles	329,934	---
Impairment of property, plant and equipment	13,021	---
Share-based payment amortisation expense	5,582	5,892
Deferred consideration unwinding of discount	3,630	4,620
Net loss on sale of non-current assets	6,500	699
Restructuring costs and other non-cash charges	63,732	---
Gain on sale, net of transaction costs	(201,448)	---
Gain from adjustment to contingent consideration	(22,522)	(1,011)
Fair value adjustment to derivative liabilities	(288)	(1,521)
Share of net profit after-tax of associate accounted for using the equity method	(293)	---
Net exchange differences	72	(1,469)
Change in operating assets and liabilities, excluding effects from business combinations and sale of Nixon:		
(Increase)/decrease in trade debtors	109,183	9,440
(Increase)/decrease in inventories	19,984	(69,087)
(Increase)/decrease in deferred tax assets	(37,835)	(16,002)
(Increase)/decrease in provision for income taxes receivable	(2,942)	(12,096)
(Increase)/decrease in other operating assets	11,421	(34,006)
Increase/(decrease) in trade creditors and other operating liabilities	(3,544)	(19,800)
Increase/(decrease) in provision for income taxes payable	(4,941)	(5,031)
Increase/(decrease) in deferred tax liabilities	17,893	898
Increase/(decrease) in other provisions	740	2,834
Net cash inflow from operating activities	78,889	24,336

Note 43. Non-cash investing and financing activities

	2012 $'000	2011 $'000
Acquisition of plant and equipment by means of finance lease	8,298	56
	8,298	56

Dividends satisfied by the issue of shares under the Dividend Reinvestment Plan are shown in note 31.

Note 44. Earnings per share

The 2011 basic and diluted earnings per share have been restated to reflect the impact of the rights issue in the 2012 financial year (refer to note 29(h)) in order to achieve a comparable calculation to the 2012 basic and diluted earnings per share. This change takes into account the bonus element included in the rights offer for ordinary shares as the offer was made at a discount to market price.

	2012 Cents	2011 Cents
(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	(158.7)	31.1
From discontinued operation	67.9	8.5
Total basic earnings per share attributable to the ordinary equity holders of the Company	(90.8)	39.6
(b) Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	(158.7)	30.9
From discontinued operation	67.9	8.4
Total diluted earnings per share attributable to the ordinary equity holders of the Company	(90.8)	39.3

(c) Reconciliations of earnings used in calculating earnings per share

	2012 $'000	2011 $'000
Basic earnings per share		
(Loss)/profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share:		
From continuing operations	(481,652)	93,627
From discontinued operation	206,003	25,512
	(275,649)	119,139
Diluted earnings per share		
(Loss)/profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share:		
From continuing operations	(481,652)	93,627
From discontinued operation	206,003	25,512
	(275,649)	119,139

(d) Weighted average number of shares used as the denominator

	2012 Number	2011 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	303,498,081	301,121,050
Adjustments for calculating diluted earnings per share:		
Performance shares and conditional rights	---	2,170,126
Options	---	---
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	303,498,081	303,291,176

(e) Information concerning the classification of securities

Performance shares and conditional rights
Performance shares and conditional rights granted to employees under the Billabong Executive Performance Share Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. These performance shares and conditional rights are anti-dilutive for the year ended 30 June 2012 and therefore have been excluded in the determination of diluted earnings per share. The performance shares and conditional rights have also been excluded in the determination of basic earnings per share. Details relating to the rights are set out in note 45.

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Note 44. Earnings per share (continued)

(e) Information concerning the classification of securities (continued)

Options
Options granted to employees under the Billabong Performance and Retention Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 45.

The 1,153,176 options granted on 31 October 2008 and the 314,503 options granted on 24 November 2008 are not included in the calculation of diluted earnings per share because they are anti-dilutive for the year ended 30 June 2012. These options could potentially dilute basic earnings per share in the future.

Note 45. Share-based payments

(a) Billabong Executive Performance Share Plan (EPSP)

Following the review of executive remuneration undertaken by the Committee in 2008, the EPSP was restructured into Tier 1 and Tier 2.

EPSP – Tier 1
Tier 1 participants comprise the executives of the Group who are directly responsible for driving the growth strategy of the Group. The objectives of the EPSP for Tier 1 participants remain the same i.e. to provide executives with an equity-based reward opportunity that vests based on the achievement of certain performance hurdles. For awards granted up to and including the 2010-11 awards, the performance hurdle is in relation to the Group's three year EPS performance. For awards granted in 2011-12 and beyond, a second performance hurdle has been adopted so that 50% of awards will be tested on the Group's three year EPS performance, with the remaining 50% of awards tested on Total Shareholder Return (TSR). The establishment of the EPSP was approved by shareholders at the 2004 Annual General Meeting.

Under the EPSP the Group awards the following equity subject to the tax implications in the relevant jurisdiction.

Equity vehicle	Overview
Tier 1 Performance shares	An employee awarded performance shares is not legally entitled to shares in the Company before the performance shares allocated under the EPSP vest. For awards granted up to and including the 2010-11 awards, the employee can vote and receive dividends in respect of shares allocated to them. For awards granted in 2011-12 and beyond, the employee cannot vote and EPSP dividends will be held in trust during the performance period and net dividends will be paid to executives only on performance shares that vest. If no shares vest, no dividends are payable. For Australian employees, once the shares have vested they remain in the trust until the earlier of the employee leaving the Group, the tenth anniversary of the date the performance shares were awarded or the Board approving an application for their release. For non-Australian employees, once their performance shares vest the shares are transferred to them (or sold on their behalf if they choose). If the performance shares do not vest, they are forfeited by the employee for no consideration.
Tier 1 Conditional rights	An employee awarded conditional rights is not legally entitled to shares in the Company before the rights allocated under the EPSP vest. Once vested, each right entitles the employee to receive one share in the Company. For French employees granted rights after 1 July 2005, shares associated with vested rights are automatically transferred to the employee. These shares cannot be disposed of before the end of a 24 month restriction period following the allocation date, except in the event of death. Until such time that the rights have vested the employee cannot use the rights to vote or receive dividends. For all other employees, from the time of the employee receiving notice of the rights having vested they have one month to exercise the rights and either sell the shares or transfer them into their name. If the rights are not exercised by the employee they will automatically exercise and the shares will be transferred to the employee. Until such time that the rights are exercised the employee cannot use the rights to vote or receive dividends. However, if the conditional rights do not vest they are forfeited by the employee for no consideration.

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Note 45. Share-based payments (continued)

(a) Billabong Executive Performance Share Plan (EPSP) (continued)

Note that for the purposes of the remuneration tables in this report, performance shares and conditional rights are collectively referred to as "rights".

Award, vesting and exercises under the EPSP are made for no consideration.

Awards under the EPSP vest on the third anniversary of grant only if the performance hurdles are satisfied in the relevant performance period. The performance periods are summarised in the table below:

Grant	Performance period
2009-10	2008-09 (base year EPS) to 2011-12
2010-11	2009-10 (base year EPS) to 2012-13
2011-12	2010-11 (base year EPS & TSR) to 2013-14

Executive Performance Share Plan (Tier 1) – performance hurdles

Year	% of award tested on EPS	EPS compound growth hurdles	% of award that vests	% of award tested on TSR	TSR performance relative to comparator group*	% of award that vests
2008-09	100%	10.0% 12.5% 15.0%	50% 100% 120%	---		
2009-10	100%	6.0% 8.0% 10.0%	50% 75% 100%	---		
2010-11	100%	6.0% 8.0% 10.0%	50% 75% 100%	---		
2011-12	50%	6.0% 8.0% 10.0%	50% 75% 100%	50%	50th percentile or above 75th percentile or above	50% 100%

** Comparator group comprises Australian companies listed in the S&P/ASX 200 at the beginning of each performance period, excluding those companies classified within the Financials and Energy sectors and the Metals and Mining Industry Group.*

The Board selected EPS and TSR (for awards from 2011-12 onwards) as the appropriate hurdles for the EPSP as the EPSP is intended to focus executives on the long-term (three year) earnings performance of the Group, and allows the Group to balance an internal performance metric (EPS) with an external performance metric (TSR).

Each year, prior to awards being granted, the Human Resource and Remuneration Committee considers the market environment, the Group's business strategy and performance expectations and shareholder expectations and sets the performance targets for the awards to be granted that year. Due to the growth of the Group and the challenges of maintaining the high growth rate of earnings from a resulting higher EPS base, the targets set at grant differ for each of the 2008-09, 2009-10, 2010-11 and 2011-12 grants.

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Note 45. Share-based payments (continued)

(a) Billabong Executive Performance Share Plan (EPSP) (continued)

Details of the awards to Executive Directors, Launa Inman and Paul Naude, in the 2012-13 financial year will be set out for shareholder approval in the Notice of Meeting and Explanatory Memorandum for the Company's 2012 Annual General Meeting.

At the end of the relevant performance period, in line with its charter, the Human Resource and Remuneration Committee consider the EPS and TSR performance of the Group on an as reported basis and determines to what extent the awards should vest based on the above vesting conditions.

EPSP - Tier 2
Tier 2 participants comprise other senior management of the Group. The primary objective of the Tier 2 EPSP is retention. Under the EPSP, Tier 2 participants are awarded performance shares and conditional rights. The awards do not vest unless the employee has completed a period of two years of employment from the date the awards are granted.

The Group awards the following equity subject to the tax implications in the relevant jurisdiction:

Equity vehicle	Overview
Tier 2 Performance shares	An employee awarded performance shares is not legally entitled to shares in the Company before the performance shares allocated under the EPSP vest. However, the employee can vote and receive dividends in respect of shares allocated to them. Once the shares have vested the shares are transferred to the employee. However, if the performance shares do not vest they are forfeited for no consideration.
Tier 2 Conditional rights	An employee awarded conditional rights is not legally entitled to shares in the Company before the rights allocated under the EPSP vest. Once vested, each right entitles the employee to receive one share in the Company. Until such time that the rights are exercised the employee cannot use the rights to vote or receive dividends. However, if the conditional rights do not vest they are forfeited for no consideration.

Set out below is a summary of equity based rights (performance shares and conditional rights) awarded under the EPSP:

Type of right	Grant date	Performance determination date	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of year Number
2012							
Performance Shares	1 September 2008	30 June 2014	1,813,576	915,389	(380,066)	(637,960)	1,710,939
Conditional Rights	1 September 2008	30 June 2014	394,785	272,131	(97,814)	(46,955)	522,147
			2,208,361	1,187,520	(477,880)	(684,915)	2,233,086
2011							
Performance Shares	1 November 2007	30 June 2013	1,827,619	981,262	(310,802)	(684,503)	1,813,576
Conditional Rights	1 November 2007	30 June 2013	364,814	232,494	(70,398)	(132,125)	394,785
			2,192,433	1,213,756	(381,200)	(816,628)	2,208,361

None of the rights awarded under the EPSP vested or became exercisable during the year.

The total equity based rights that expired during the year ended 30 June 2012 and have not yet been granted under a new award was 392,611 (2011: 196,190). These expired equity based rights are held pending in the EPSP until further awards are made.

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Note 45. Share-based payments (continued)

(a) Billabong Executive Performance Share Plan (EPSP) (continued)

Fair value of rights granted
The assessed fair value at grant date of rights granted under the EPSP during the year ended 30 June 2012 was $3.62 per right (2011: $7.80). The fair value at grant date is determined by reference to the Billabong International Limited share price at grant date, taking into account the terms and conditions upon which the rights were granted, the expected dividend yield and the expected price volatility of the underlying share.

(b) Short Term Incentive (STI) deferral

Following the review of executive remuneration undertaken by the Committee in 2010, STI deferral was introduced for the STI grants from 2010-11 onwards for GM Europe Franco Fogliato, GM Australasia Shannan North and CFO Craig White. With STI deferral a portion (25% to 30%) of the incentive earned is deferred into equity. This is in the form of either shares or rights depending on the executives' location (due to tax implications). The deferred equity will vest to participants after a period of two years.

The Group awards the following equity subject to the tax implications in the relevant jurisdiction:

Equity vehicle	Overview
Performance shares	An employee awarded performance shares is not legally entitled to shares in the Company before the performance shares allocated under the STI deferral vest. However, the employee can vote and receive dividends in respect of shares allocated to them. Once the shares have vested the shares are transferred to the employee. However, if the performance shares do not vest they are forfeited for no consideration.
Conditional rights	An employee awarded conditional rights is not legally entitled to shares in the Company before the rights allocated under the STI deferral vest. Once vested, each right entitles the employee to receive one share in the Company. Until such time that the rights are exercised the employee cannot use the rights to vote or receive dividends. However, if the conditional rights do not vest they are forfeited for no consideration.

Set out below is a summary of equity based rights (performance shares and conditional rights) awarded under STI deferral:

Type of right	Grant date	Performance determination date	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of year Number
2012							
Performance Shares	1 September 2011	30 June 2013	---	26,585	---	---	26,585
Conditional Rights	1 September 2011	30 June 2013	---	10,528	---	---	10,528
			---	37,113	---	---	37,113

There were no STI deferred performance shares or conditional rights allocated as at 30 June 2011.

None of the rights awarded under the STI deferral vested or became exercisable during the year.

Fair value of rights granted
The assessed fair value at grant date of rights granted under the STI deferral during the year ended 30 June 2012 was $3.62 per right (2011: Nil). The fair value at grant date is determined by reference to the Billabong International Limited share price at grant date, taking into account the terms and conditions upon which the rights were granted, the expected dividend yield and the expected price volatility of the underlying share.

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Note 45. Share-based payments (continued)

(c) Billabong Executive Performance and Retention Plan (EPRP)

The establishment of the EPRP was approved at the Annual General Meeting of the Company held on 28 October 2008. The EPRP is designed to retain and effectively reward key senior executives over a five year period for growing the market value of the Group and delivering returns to shareholders. Under the EPRP, the executive team are granted options. The options will only vest if certain performance hurdles are met and if the individual is still employed by the Group at the end of the vesting period.

Vesting of the options is subject to the Company's Total Shareholder Return (TSR) performance. TSR measures growth in the Company's share price, together with the value of dividends received during the relevant period. Two TSR performance hurdles must be achieved in order for awards to vest:

- A 'gateway' relative TSR hurdle of above median of a comparator group of companies over the five year performance period, measured from start of performance period to end of year five; and
- Absolute TSR hurdle with a 120% target (equivalent to approximately 12.8% share price growth per annum over five years) to be achieved at any point over the five year performance period.

The comparator group for the relative TSR comparator group is the constituents of the S&P/ASX 100 Index at the start of the performance period (excluding companies in the Global Industry Classification Standard (GICS) name codes: 'Oil, Gas and Consumable Fuels' and 'Metals and Mining').

The use of a relative TSR hurdle gateway directly aligns executive reward and shareholder return by ensuring that executives are only rewarded for the absolute TSR performance if they are also in the "top half" of ASX 100 (excluding certain GICS industries) performers at the time performance is tested.

The use of the stretch absolute TSR performance target focuses executives on significantly growing the business in line with the strategic plan and generating strong returns for shareholders.

An early banking opportunity is also provided to executives where the absolute and relative performance hurdles are satisfied. However, in order for the options to vest the continued employment condition must be satisfied. The banking approach allows for executives to be rewarded for "early" high TSR performance. However, due to the continued employment requirement and the delivery vehicle being options, the EPRP encourages sustained share price performance throughout the five year period and enhances the retention impact of the awards.

The performance hurdles and the early banking opportunities are summarised in the table below:

Date	Year 3 test 30 June 2011	Year 4 test 30 June 2012	Year 5 test 30 June 2013
Absolute TSR	80% TSR achieved at any time during the prior three years.	100% TSR achieved at any time during the prior four years.	120% TSR achieved at any time during the prior five years.
Relative TSR	Above median TSR performance achieved against comparator group of companies.	Above median TSR performance achieved against comparator group of companies.	Above median TSR performance achieved against comparator group of companies.
Banking	1/3 of total options.	2/3 of total options.	All options earned.

Once vested the options remain exercisable for a period of two years.

Options granted under the EPRP carry no dividend or voting rights.

When exercisable each option is convertible into one ordinary share upon receipt of funds.

The exercise price of options is based on the weighted average price at which the Company's shares are traded on the Australian Securities Exchange during the five trading days immediately before the options are granted. Amounts received on the exercise of options are recognised as share capital.

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Note 45. Share-based payments (continued)

(c) Billabong Executive Performance and Retention Plan (EPRP) (continued)

Set out below are summaries of options granted under the EPRP.

2012

Grant date	Expiry date	Exercise price	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of year Number	Exercisable at end of year Number
31 October 2008	31 October 2015	$11.08	1,782,183	---	---	(629,007)	1,153,176	---
24 November 2008	24 November 2015	$10.80	314,503	---	---	---	314,503	---
			2,096,686	---	---	(629,007)	1,467,679	---
Weighted average exercise price			$11.04	---	---	$11.08	$11.02	---

2011

Grant date	Expiry date	Exercise price	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of year Number	Exercisable at end of year Number
31 October 2008	31 October 2015	$11.08	1,782,183	---	---	---	1,782,183	---
24 November 2008	24 November 2015	$10.80	314,503	---	---	---	314,503	---
			2,096,686	---	---	---	2,096,686	---
Weighted average exercise price			$11.04	---	---	---	$11.04	---

Fair value of options granted

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using the Monte-Carlo simulation option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

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Note 45. Share-based payments (continued)

(c) Billabong Executive Performance and Retention Plan (EPRP) (continued)

The model inputs for options granted during the year ended 30 June 2009 included:	Grant Date 31 October 2008	24 November 2008
(a) exercise price:	$11.43	$10.80
(b) vesting date:	31 October 2013	24 November 2013
(c) expiry date:	31 October 2015	24 November 2015
(d) share price at grant date:	$11.92	$9.60
(e) expected price volatility of the Company's shares:	30%	30%
(f) expected dividend yield:	3.80%	4.20%
(g) expected life:	6.0 years	6.0 years
(h) risk-free interest rate:	4.84%	4.20%

(i) options are granted for no consideration and vest based on the Company's TSR, including share price growth, dividends and capital returns, compared to the TSR of the constituents of the S&P/ASX 100 Index at the start of the performance period (excluding companies under the Global Industry Classification Standard name codes: 'Oil, Gas and Consumable Fuels' and 'Metals and Mining') over a five year period. Vested options are exercisable for a period of two years after vesting.

The expected volatility is based on the historic volatility (based on the remaining life of the option), adjusted for any expected changes to future volatility due to publicly available information.

Shareholder approval was obtained at the 2009 Annual General Meeting to change the exercise price of options granted during the 2008-09 financial year to take into account the Company's entitlement offer in May 2009. Previously, the exercise price for the options was the five day volume weighted average price of the Company's shares up to the date of the grant.

Under the rules of the EPRP, the Board has the power to adjust the exercise price to take account of the entitlement offer. The purpose of this is to ensure that option holders are not unfairly advantaged or disadvantaged by the entitlement offer. Due to the increase in the Company's share capital as a result of the entitlement offer and the impact on the share price which could potentially affect the options granted under the EPRP, the exercise price has been adjusted in accordance with the ASX Listing Rules.

The formula under the ASX Listing Rules is:

$$O' = O - \frac{E\,[P - (S+D)]}{N + 1}$$

The formula inputs for options granted on 31 October 2008 included:

O' = the new exercise price of the option
O = the old exercise price of the option
E = the number of underlying securities into which one option is exercisable
P = the volume weighted average market price per security of the underlying securities during the Company's five trading days ending on the day before the ex-entitlement date
S = the subscription price for a security under the entitlement issue
D = the dividend due, but not yet paid, on the existing underlying securities (except those to be issued under the pro-rata issue)
N = the number of securities which must be held to receive a right to one new security

The calculation to determine the reduced exercise price for the options granted on 31 October 2008 is as follows:

$$O' = 11.43 - \frac{1\,[9.80 - (7.50 + 0)]}{5.5 + 1}$$

$$O' = 11.08$$

The options granted on 24 November 2008 relate to Franco Fogliato, General Manager, Billabong Europe who is a French resident and was granted options under a French sub-plan, which complies with French legal and taxation requirements and which therefore restricts the ability to amend the exercise price of options after their grant date. As a result, the exercise price for these options was not adjusted and the terms of these options were not amended.

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Note 45. Share-based payments (continued)

(d) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefits expense were as follows:

	2012 $'000	2011 $'000
Operating costs of the Billabong Executive Performance Share Plan	25	22
Share-based payment expense	5,582	5,892
	5,607	5,914

Note 46. Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Parent entity	
	2012 $'000	2011 $'000
Current assets	28,421	41,454
Total assets	1,645,479	1,295,246
Current liabilities	25,080	3,234
Total liabilities	428,132	476,698
Shareholders' equity		
Issued capital	843,268	678,949
Reserves		
Option reserve	29,676	24,094
Retained earnings	344,403	115,505
	1,217,347	818,548
Profit for the year	269,569	86,446
Total comprehensive income	269,569	86,446

(b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2012 or 30 June 2011.

(c) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2012 the parent entity had no contractual commitments for the acquisition of property, plant or equipment.

(d) Guarantees entered into by the parent entity

Billabong International Limited is a party to the deed of cross guarantee as described in note 40. No deficiencies of assets exist in any of the companies described in note 40.

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In the Directors' opinion:

(a) the financial statements and notes set out on pages 46 to 132 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
   (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2012 and of their performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 40 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 40.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.



Ted Kunkel
Chairman

Gold Coast
27 August 2012

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Independent auditor's report to the members of Billabong International Limited

Report on the financial report

We have audited the accompanying financial report of Billabong International Limited (the Company), which comprises the balance sheet as at 30 June 2012, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration for the Billabong Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report
The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1(a), the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards.*

Auditor's responsibility
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence
In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.*

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DX 77 Brisbane, Australia
T +61 7 3257 5000, F +61 7 3257 5999, www.pwc.com.au

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Independent auditor's report to the members of Billabong International Limited (continued)

Auditor's opinion
In our opinion:

(a) the financial report of Billabong International Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in note 1(a).

Report on the Remuneration Report
We have audited the Remuneration Report included in pages 13 to 33 of the Directors' report for the year ended 30 June 2012. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion
In our opinion, the Remuneration Report of Billabong International Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Steven Bosiljevac
Partner

Brisbane
27 August 2012

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The shareholder information set out below was applicable as at 13 August 2012.

Distribution of Equity Securities
Analysis of numbers of equity security holders by size of holding:

	Ordinary shares		Unquoted options	
	Number of share holders	Number of shares	Number of option holders	Number of options
1 – 1,000	11,552	4,750,564	---	---
1,001 – 5,000	6,324	14,895,124	---	---
5,001 – 10,000	1,376	10,282,637	---	---
10,001 – 100,000	1,111	29,403,739	---	---
100,001 and over	133	419,612,228	4	1,467,679
	20,496	478,944,292	4	1,467,679

There were 5,850 holders of less than a marketable parcel of ordinary shares.

Equity Security Holders

Twenty largest quoted equity security holders
The names of the twenty largest holders of quoted equity securities are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
Gordon Merchant	69,705,463	14.55%
National Nominees Limited	65,405,980	13.66%
J P Morgan Nominees Australia Limited	57,176,571	11.94%
HSBC Custody Nominees (Australia) Limited	46,394,544	9.69%
Citicorp Nominees Pty Limited	37,409,457	7.81%
J P Morgan Nominees Australia Limited <Cash Income A/C>	30,978,480	6.47%
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	21,666,786	4.52%
BNP Paribas Noms Pty Ltd <Master Cust DRP>	10,281,082	2.15%
HSBC Custody Nominees (Australia) Limited-GSCO ECA	6,729,293	1.41%
Colette Paul	5,521,824	1.15%
Goldman Sachs Australia Pty Ltd <SLF A/C>	3,841,677	0.80%
Bond Street Custodians Limited <Macquarie Alpha Opport A/C>	3,772,533	0.79%
Deep Investments Pty Ltd	2,842,858	0.59%
Crownace Pty Ltd	2,785,715	0.58%
CS Fourth Nominees Pty Ltd	2,591,629	0.54%
Queensland Investment Corporation	2,434,921	0.51%
AMP Life Limited	2,390,100	0.50%
UBS Wealth Management Australia Nominees Pty Ltd	2,129,176	0.44%
Catholic Church Insurances Limited	2,000,000	0.42%
CGA No 2 Pty Ltd <The Bondi A/C>	1,976,959	0.41%
	378,035,048	78.93%

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Unquoted Equity Securities		Number on issue	Number of holders
Options issued under the Executive Performance and Retention Plan as approved by shareholders at the Annual General Meeting on 28 October 2008:			
Class – BBGAI		1,153,176	3
Class – BBGAK		314,503	1

The options listed above are the only unquoted equity securities on issue.

The following people hold 20% or more of these securities:

Class – BBGAI	Paul Naude	524,170
	Shannan North	314,503
	Craig White	314,503
Class – BBGAK	Franco Fogliato	314,503

Substantial Holders
As at 14 August 2012 the names of substantial holders in the Company who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are set out below:

Ordinary Shares	Number	Percentage
Gordon Stanley Merchant & Gordon Merchant No. 2 Pty Ltd	75,227,287	15.71%
TPG Asia Inc.*	59,618,480	12.45%
IOOF Holdings Limited	56,079,308	11.71%
Commonwealth Bank of Australia	42,434,108	8.86%
Franklin Resources, Inc.	36,551,586	7.63%

* TPG Asia, Inc.'s relevant interest arises under share sale agreements. The terms of these agreements were disclosed in a Notice of Initial Substantial Holder filed by TPG Asia, Inc. with ASX on 25 July 2012.

Voting Rights
The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares
On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) Options
No voting rights.

Stock Exchange Listing
The shares of the Company are listed under the symbol BBG on the Australian Securities Exchange. The Company's home branch is Brisbane.

Shareholder Enquiries
If you are a shareholder with queries about your holdings you should contact the Company's Share Registry as follows:

Computershare Investor Services Pty Limited
GPO Box 2975
MELBOURNE VIC 3001

Telephone Australia: 1300 850 505
Telephone International: +61 3 9415 4000
Fax: +61 3 9473 2500
Email: web.queries@computershare.com.au

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Become an Online Shareholder
You can also access your current shareholding and update your details online. To register, you should visit the share registry at www.computershare.com.au/easyupdate/bbg and enter your personal securityholder information (eg Holder Identification Number (HIN) or Securityholder Reference Number (SRN)) and postcode, then click on 'Submit' and follow the prompts.

Change of Address
Issuer sponsored shareholders should notify the share registry immediately upon any change in their address quoting their Securityholder Reference Number (SRN) either in writing or online. Changes in addresses for broker sponsored holders should be directed to the sponsoring brokers with the appropriate Holder Identification Number (HIN).

Dividends
If a dividend is declared the payments may be paid directly into your nominated financial institution in Australia, New Zealand, United Kingdom or United States. Dividend payments are electronically credited on the dividend payment date and confirmed by payment advices mailed directly to your registered shareholder address. Application forms are available from our Share Registry or update your details online.

If you have not provided direct credit instructions to have your dividend paid directly into a nominated financial institution or you do not have your shareholding registered in one of the above four countries, then you will receive an Australian dividend cheque.

Billabong International Limited also pays dividends by local currency cheque to shareholders who maintain a registered address in the following jurisdictions:

Europe – Euro,
Hong Kong - $HK,
Japan- Yen,
New Zealand - $NZ,
United Kingdom – GBP, and
United States - $US.

Dividend Reinvestment Plan
The Board has not declared a final ordinary dividend for the year ended 30 June 2012 and does not expect to declare an interim ordinary dividend for the half-year ended 31 December 2012. The Board confirms that the dividend policy will be reviewed thereafter.

The Dividend Reinvestment Plan (DRP) is suspended until such time as the dividend policy review has been undertaken.

Annual Report
The latest Annual Report can be accessed from the Company's corporate website at www.billabongbiz.com. If you are a shareholder and you wish to receive a hard copy of the Annual Report, please contact our Share Registry or update your details online.

Tax File Numbers (TFN)
Billabong International Limited is obliged to deduct tax from unfranked or partially franked dividends paid to shareholders registered in Australia who have not provided their TFN to the Company. If you wish to provide your TFN, please contact the Share Registry or update your details online.

Consolidation of Multiple Shareholdings
If you have multiple shareholding accounts that you wish to consolidate into a single account, please advise the Share Registry in writing. If your holdings are broker sponsored, please contact the sponsoring broker directly.

Other Shareholder Information
Visit the Company's corporate website at www.billabongbiz.com for the Company's latest information.

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NOTES

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NOTES

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GROUP OPERATING CENTRES

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