Billabong International Limited

ABN 17 084 923 946

INTERIM FINANCIAL REPORT 31 DECEMBER 2016

This interim financial report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2016 and any public announcements made by Billabong International Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

Billabong International Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:
1 Billabong Place, Burleigh Heads Qld 4220
For queries in relation to reporting please call +61 7 5589 9899 or email: secretary@billabong.com.au
Corporate website: www.billabongbiz.com

Extracts from this report for announcement to the market.

	Half-year 2016 $'000	Half-year 2015 $'000	Change $'000	%
Total revenue from ordinary activities	511,027	565,440	(54,413)	(9.6%)
Loss from ordinary activities after tax attributable to members	(16,050)	(1,587)	(14,463)	n/a
Net loss for the period attributable to members	(16,050)	(1,587)	(14,463)	n/a

Dividends	**Amount per Security**	**Franked amount per security**
Interim dividend	0.0 cents	0.0 cents
Previous corresponding period interim dividend	0.0 cents	0.0 cents

The Board has not declared an interim ordinary dividend for the half-year ended 31 December 2016.

The Dividend Reinvestment Plan (DRP) remains suspended.

NTA backing	**Half-year 2016**	Half-year 2015
Net tangible asset backing per ordinary share	$0.34	$0.54

Explanation of Results

Please refer to the Operating and Financial Review within the Directors' Report for an explanation of the results.

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 half-year ended 31 December 2016.

Directors

The following persons were Directors of the Company during the whole of the half-year and up to the date of this report:

Ian Pollard
Neil Fiske
Gordon Merchant
Howard Mowlem
Jason Mozingo

Kim Anderson was appointed as Director on 9 December 2016 and continues in office at the date of this report.

Sally Pitkin was a Director from the beginning of the financial period until her resignation on 15 August 2016.

Amar Doshi was an Alternate Director to Jason Mozingo from the beginning of the financial period until his resignation on 4 August 2016.

Operating and Financial Review

Group overview

Significant changes in the state of affairs
The statement below should be read in conjunction with note 33 (events occurring after the balance sheet date) of the annual report for the year ended 30 June 2016 and any public announcements made by the Company during the financial half-year.

Other than matters dealt with in this report there were no significant changes in the state of affairs of the Group during the financial half-year.

Group financial performance
The Group results for the period and the prior corresponding period (pcp) include certain significant items. Refer to note 3 of the half-year financial statements for detailed disclosure in relation to these items.

In order to provide users with additional information regarding the continuing operations excluding the aforementioned significant items and to help understand the impact of these events on the results of the Group, the segment results are presented in two separate tables.

Table A presents the segment results on a basis including all significant items. See Table A: Segment results as reported - including significant items.

Table B presents the results excluding significant items. See Table B: Adjusted segment results.

On 29 June 2016, the Group announced the sale of Sector 9. The results of Sector 9 did not meet the conditions under AASB 5 to be disclosed as a discontinued operation and are therefore included in the pcp in both tables below. The disposal of Sector 9 primarily impacts the year on year comparison of revenue and expenses, particularly in the Americas, and has been highlighted in some of the accompanying commentary included in this report.

Table A: Segment results as reported - including significant items

	Segment revenues		**Segment EBITDAI***	
	Half-year 2016 $'000	Half-year 2015 $'000	**Half-year 2016 $'000**	Half-year 2015 $'000
Asia Pacific	231,339	243,904	19,181	29,525
Americas	192,093	219,926	(5,375)	(3,693)
Europe	84,887	98,045	3,439	7,575
Third party royalties	1,586	1,833	1,586	1,833
Segment revenues / EBITDAI*	509,905	563,708	18,831	35,240
Less: Depreciation and amortisation			(14,578)	(16,320)
Net interest expense			(16,416)	(16,818)
(Loss)/profit before income tax expense			(12,163)	2,102
Income tax expense			(3,887)	(3,689)
Loss attributable to members of Billabong International Limited			(16,050)	(1,587)

* 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).

Operating and Financial Review (continued)

Table B: Adjusted segment results

Adjusted EBITDAI by Segment	**Excluding significant items** **Half-year 2016 $'000**	Half-year 2015 $'000
Asia Pacific	20,582	29,602
Americas	3,395	(1,902)
Europe	3,784	7,665
Third party royalties	1,586	1,833
Adjusted EBITDAI	29,347	37,198
Less: Depreciation and amortisation	(14,578)	(16,320)
Net interest expense	(16,416)	(16,818)
Adjusted net (loss)/profit before income tax expense	(1,647)	4,060
Adjusted income tax expense	(5,094)	(5,889)
Adjusted net loss attributable to members of Billabong International Limited	(6,741)	(1,829)

Constant currency
Due to a significant portion of the Group's operations being outside 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 (AUD). The Group's segment information for the prior period has also been provided in the below commentary on a constant currency basis (i.e. using the current period monthly average exchange rates to convert the prior period foreign earnings) to remove the impact of foreign exchange movements from the Group's performance against the pcp. The constant currency comparatives are not compliant with Australian Accounting Standards.

Adjusted EBITDAI
Adjusted EBITDAI excludes pre-tax significant items of income and expense. Refer to note 3 of the half-year financial statements for detailed disclosure in relation to these items.

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

Consolidated result including significant items
Net loss after tax for the half-year ended 31 December 2016 was $16.1 million compared to a net loss after tax of $1.6 million in the pcp. The current half-year includes an income tax expense of $3.9 million compared to an income tax expense in the prior half-year of $3.7 million. Loss before income tax expense for the half-year ended 31 December 2016 was $12.2 million compared to profit before tax of $2.1 million in the pcp. The results were impacted by the abovementioned significant items in both half-years.

Group performance excluding significant items
Group sales to external customers of $508.3 million, excluding third party royalties, represents an as reported 9.5% decrease on the pcp. In constant currency terms Group revenues decreased 7.6% on the pcp. In constant currency terms, sales revenue in Asia Pacific decreased 6.7%, the Americas decreased 9.5% and Europe decreased 5.9% compared with the pcp. Adjusting for the disposal of Sector 9 comparable Group revenues in constant currency terms decreased 5.8% for the period compared with the pcp.

Consolidated gross margins were 51.6% (51.7% in the pcp).

Adjusted EBITDAI excluding significant items of $29.3 million for the period compares to $37.2 million for the pcp. This is a decrease of 21.1% (a decrease of 20.9% in constant currency terms).

Regional results excluding significant items were as follows:

- In Asia Pacific
  - EBITDAI of $20.6 million for the period compares to $29.6 million for the pcp.
  - Revenue was 5.2% lower than the pcp in as reported terms (down 6.7% in constant currency terms) and adjusted EBITDAI was down $9.0 million compared to the pcp.
  - Asia Pacific was significantly impacted by a weak trading month of October with comparable bricks and mortar retail sales down 16.0% in Australia which had a flow on impact to wholesale repeat orders in the months of November and December.
  - Bricks and mortar retail sales in November and December improved compared to October. Australian comparable bricks and mortar retail sales in the month of December were up 0.9%.
  - For the half-year as a whole, bricks and mortar comparable store sales trading across the region was 3.7% lower compared to the pcp. In Australia, comparable bricks and mortar store sales were down 4.2% on the pcp.
  - Gross margin pressure reflected the lower AUD, relative to the United States Dollars (USD), during the period which increased input prices (approximately $4 million) and impacted gross margins 170 basis points compared to the pcp, together with a highly promotional retail environment. Sourcing and other margin improvements limited the overall decline in gross margins to 130 basis points.

Operating and Financial Review (continued)

- In Americas
  - EBITDAI of $3.4 million for the period compares to a loss of $1.9 million for the pcp (an improvement of $5.3 million). Improved gross margins and lower overheads more than offset a decrease in revenue.
  - Revenue was 12.7% lower than the pcp in as reported terms (down 9.5% in constant currency terms).
  - The sales decline of $20.2 million on a constant currency basis can primarily be attributed to Sector 9 ($10.5 million included in the prior year compared to nil in the current year), a significant decline in sales to a large United States of America retailer (which was in Chapter 11 for part of the period), reductions in bricks and mortar retail (down 8.5% on a constant currency basis due to planned closures), partly offset by ecommerce revenues which were up 22.7%. Whilst total bricks and mortar retail revenue was down, comparable bricks and mortar store sales for the region were up 0.5% on the pcp and specifically for the United States of America comparable store sales were up 1.1% on the pcp.
  - North America brand Billabong ecommerce revenues were up 41.5% on a constant currency basis.
  - Gross margins improved from 46.5% in the pcp to 48.2%.
  - On 29 June 2016, the Group announced the sale of Sector 9. The results of Sector 9 did not meet the conditions under AASB 5 to be disclosed as a discontinued operation and are therefore included in the pcp results. Sector 9 EBITDAI in the pcp was a loss of $1.1 million.
  - Overheads were down on the pcp 8.0% in constant currency terms when excluding Sector 9 from the pcp and excluding the allocation of global overhead costs.

- In Europe
  - Europe EBITDAI was lower for the period following two consecutive half-years of improvement. A weak start in retail sales at the start of the period had flow on effects to wholesale repeat sales in the second quarter.
  - EBITDAI of $3.8 million for the period compares to $7.7 million for the pcp.
  - Revenue was 13.4% lower than the pcp in as reported terms (down 5.9% in constant currency terms) and adjusted EBITDAI was down $3.9 million compared to the pcp.
  - Comparable bricks and mortar store sales were down 2.2% on the pcp.

Group performance including significant items
EBITDAI of $18.8 million for the period compares to $35.2 million for the pcp. The current half-year includes significant items expense of $10.5 million compared to an expense of $2.0 million for the pcp. In addition to the significant items, the comparison is impacted by the trading matters noted above.

Significant items
Pre-tax significant items for the half-year ended 31 December 2016 was a net expense of $10.5 million which decreased EBITDAI.

Pre-tax significant items for the half-year ended 31 December 2015 was a net expense of $2.0 million which decreased EBITDAI.

Refer to note 3 of the half-year financial statements for detailed disclosure in relation to these items.

Depreciation and amortisation expense
Depreciation and amortisation expense of $14.6 million decreased 10.7% in reported terms compared to the pcp ($16.3 million) and on a constant currency basis depreciation and amortisation expense was $16.0 million in the pcp.

Net interest expense
Net interest expense decreased from $16.8 million in the pcp to $16.4 million. On a constant currency basis net interest expense was $16.1 million in the pcp.

Income tax expense
The statutory loss before tax for the half-year period ended 31 December 2016 was $12.2 million with an income tax expense of $3.9 million. The income tax expense arises primarily from non-claimable withholding tax credits and the prevailing position that deferred tax assets are not being recognised on tax losses or temporary differences in most jurisdictions, most notably in Europe and North America. Cash payments for income taxes for the period was $3.5 million.

In the majority of jurisdictions, the Group only recognises a deferred tax asset to the extent it offsets a deferred tax liability. This is on the basis that it is not considered probable that sufficient taxable profits will be generated in those jurisdictions to utilise a deferred tax asset in excess of the deferred tax liability. The main exceptions to this position are Australia, Japan and New Zealand where the deferred tax asset being recognised exceeds the deferred tax liability (on the basis that recovery of the deferred tax asset is probable). With the exception of New Zealand, no deferred tax asset is being recognised in respect of any tax losses on the basis that all conditions including Continuity of Ownership tests may not be met and utilisation of any tax losses in the other jurisdictions is not considered probable.

Consolidated balance sheet, cash flow items and capital expenditure
Working capital at $166.2 million represents 15.7% of the prior twelve months' sales stated at half-year end exchange rates, being 0.9% higher compared to the pcp of 14.8%. Working capital as a percentage of sales at December 2016 compared to December 2015 is higher primarily as result of a reduction in creditors as part of the Group's supplier consolidation strategy, as well as a reduction in payables in respect of inventory purchases at 31 December 2016 when compared to the pcp. Inventory is down significantly when compared to the pcp (where North America had excess levels of inventory), partly due to the divestment of Sector 9 and also the inventory adjustment included in significant items (refer note 3 of the half-year financial statements).

Cash inflow from operating activities was $27.3 million, compared to $12.3 million in the pcp, a good improvement notwithstanding the reductions in trading. Receipts from customers net of payments to suppliers and employees were $44.2 million compared to $22.8 million in the pcp, primarily due to the improved working capital movements for the period compared to the pcp and lower significant item payments compared to the pcp.

Operating and Financial Review (continued)

Cash outflow from investing activities of $13.1 million includes payments for capex of $12.1 million. The prior half-year had cash outflow from investment activities of $31.9 million included the RVCA deferred consideration initial instalment payment of $9.9 million and capex of $22.0 million.

Net debt increased from $185.2 million as at 30 June 2016 to $186.1 million, the increase including payment in kind interest of $8.3 million for the period.

Matters subsequent to the end of the half-year

On 23 February 2017 the Company announced that it has entered into binding documentation to sell the Tigerlily business to Crescent Capital Partners. The transaction is in line with the Group's strategy to simplify its brand portfolio.

The sale of Tigerlily will raise $60 million, with net proceeds from the sale used to retire term loan debt. The transaction will impact the Asia Pacific operating segment. Tigerlily's revenue was approximately $30 million for the twelve month period ended 31 December 2016 and on a full year basis was expected to contribute between $7 million and $8 million in EBITDAI to the Group for the financial year ended 30 June 2017. The transaction is subject to conditions precedent which are typical for transactions of this type, with completion expected before the end of the current financial year.

Other than the item noted above, there has not arisen in the interval between the end of the financial half-year and the date of this report any item, transaction or event of a material and unusual nature that would be likely, in the opinion of the Directors, to significantly affect 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 expected improvement in the underlying EBITDAI for the second half of the financial year ended 30 June 2017 continues to be based on line-of-sight improvements from the Group's key initiatives, in particular:

- Comparable gross margins in the second half of the financial year which are expected to be up in all regions on the strength of sourcing and merchandising initiatives;
- Costs and inventories, which are in better shape heading into the second half;
- The turnaround in the Americas, which contributes proportionally more to the second half result; and
- The impact of the group's hedging program which means there will be no year-on-year foreign exchange-related margin pressure in the second half.

The Group's previous guidance of EBITDAI in the $60-65 million range for the financial year ended 30 June 2017 needs to be updated for the sale of Tigerlily which will be treated as a discontinued operation in the results for the financial year ended 30 June 2017. This treatment is expected to reduce the Group's continuing business EBITDAI reported for the financial year ended 30 June 2017 by approximately $8 million, which represents Tigerlily's full twelve month EBITDAI contribution to the Group.

Accordingly, the Group affirms the financial year ended 30 June 2017 EBITDAI guidance provided at the Annual General Meeting in November, but for the adjustment to exclude Tigerlily EBITDAI for the year. This equates to an updated EBITDAI range for continuing operations for the financial year ended 30 June 2017 of $52-57 million (excluding significant items).

The Group continues to have a significant bias of second half earnings to the month of June in the Americas. Performance in this period is key to delivering on the Group's full year expectations. Of course, the Group's full year expectation is subject to reasonable trading conditions and currency markets remaining relatively stable. Whilst exchange rate movements in relation to cost of goods is hedged for the balance of the 2017 financial year, the rate at which foreign earnings are translated into Group EBITDAI will depend on the prevailing rates at the time.

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 7.

Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

The financial information that is not in compliance with Australian Accounting Standards contained within this Directors' Report have not been reviewed in accordance with Australian Auditing Standards.

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

Ian Pollard
Chair
Gold Coast, 24 February 2017

Auditor's Independence Declaration

As lead auditor for the review of Billabong International Limited for the half-year ended 31 December 2016, 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 review; and

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

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

K. Stubbins

Kristin Stubbins
Partner
PricewaterhouseCoopers

Sydney
24 February 2017

Consolidated income statement
For the half-year ended 31 December 2016

	Notes	Half-year 2016 $'000	Half-year 2015 $'000
Revenue from continuing operations		511,027	565,440
Cost of goods sold		(250,954)	(271,294)
Other income		2,016	7,458
Selling, general and administrative expenses		(196,382)	(218,752)
Other expenses		(59,222)	(61,282)
Finance costs		(18,648)	(19,468)
(Loss)/profit before income tax		(12,163)	2,102
Income tax expense	2	(3,887)	(3,689)
Loss for the half-year attributable to the members of Billabong International Limited		(16,050)	(1,587)
Earnings per share for loss attributable to the ordinary equity holders of the Company		**Cents**	Cents
Basic earnings per share		(8.1)	(0.8)
Diluted earnings per share		(8.1)	(0.8)

Consolidated statement of comprehensive income
For the half-year ended 31 December 2016

	Half-year 2016 $'000	Half-year 2015 $'000
Loss for the half-year	(16,050)	(1,587)
Other comprehensive (expense)/income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges, net of tax	5,305	(1,419)
Exchange differences on translation of foreign operations	(15,944)	8,373
Net investment hedge, net of tax	9,244	(6,331)
Other comprehensive (expense)/income for the half-year, net of tax	(1,395)	623
Total comprehensive expense for the half-year attributable to members of Billabong International Limited	(17,445)	(964)

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

Consolidated balance sheet
As at 31 December 2016

	Notes	31 December 2016 $'000	30 June 2016 $'000	31 December 2015 $'000
ASSETS				
Current assets				
Cash and cash equivalents		99,692	89,171	138,372
Trade and other receivables		137,206	171,644	131,681
Inventories		186,047	185,556	217,120
Current tax receivables		1,313	1,499	2,058
Assets classified as held for sale	4	---	---	6,008
Other		18,138	16,584	19,861
Total current assets		442,396	464,454	515,100
Non-current assets				
Receivables		7,519	7,792	7,230
Property, plant and equipment		82,287	86,321	87,554
Intangible assets		175,145	165,035	175,298
Deferred tax assets		12,487	15,712	16,821
Other		5,596	4,934	6,117
Total non-current assets		283,034	279,794	293,020
Total assets		725,430	744,248	808,120
LIABILITIES				
Current liabilities				
Trade and other payables		158,330	169,991	194,962
Borrowings		5,419	8,168	7,370
Current tax liabilities		3,406	3,629	3,798
Provisions		15,079	16,144	17,195
Total current liabilities		182,234	197,932	223,325
Non-current liabilities				
Borrowings		280,402	266,209	275,113
Deferred tax liabilities		329	---	---
Provisions		11,608	11,577	15,882
Other payables		9,341	9,241	12,574
Total non-current liabilities		301,680	287,027	303,569
Total liabilities		483,914	484,959	526,894
Net assets		241,516	259,289	281,226
EQUITY				
Contributed equity		1,094,274	1,094,274	1,094,274
Treasury shares		(20,302)	(20,431)	(20,431)
Option reserve		11,611	12,069	10,742
Other reserves		(107,141)	(105,747)	(104,635)
Retained losses		(736,926)	(720,876)	(698,724)
Capital and reserves attributable to members of Billabong International Limited		241,516	259,289	281,226
Total equity		241,516	259,289	281,226

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

	Attributable to members of Billabong International Limited			
	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2015	1,094,274	(115,553)	(697,137)	281,584
Loss for the half-year	---	---	(1,587)	(1,587)
Other comprehensive income	---	623	---	623
Total comprehensive income/(expense) for the half-year	---	623	(1,587)	(964)
Transactions with equity holders in their capacity as equity holders				
Option reserve in respect of employee share plan	---	288	---	288
Deferred tax credit recognised directly in equity	---	318	---	318
	---	606	---	606
Balance at 31 December 2015	1,094,274	(114,324)	(698,724)	281,226
Balance at 1 July 2016	1,094,274	(114,109)	(720,876)	259,289
Loss for the half-year	---	---	(16,050)	(16,050)
Other comprehensive (expense)/income	---	(1,395)	---	(1,395)
Total comprehensive (expense)/income for the half-year	---	(1,395)	(16,050)	(17,445)
Transactions with equity holders in their capacity as equity holders				
Option reserve in respect of employee share plan	---	(358)	---	(358)
Deferred tax credit recognised directly in equity	---	30	---	30
	---	(328)	---	(328)
Balance at 31 December 2016	1,094,274	(115,832)	(736,926)	241,516

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

	Half-year 2016 $'000	Half-year 2015 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of sales taxes)	586,830	635,135
Payments to suppliers and employees (inclusive of sales taxes)	(542,667)	(612,301)
	44,163	22,834
Interest received	130	345
Other revenue	3,944	9,519
Finance costs	(17,423)	(18,460)
Income taxes paid	(3,506)	(1,909)
Net cash inflow from operating activities	27,308	12,329
Cash flows from investing activities		
Payments for deferred consideration	---	(9,875)
Payments for property, plant and equipment	(7,322)	(13,862)
Payments for finite life intangible assets	(4,789)	(8,210)
Payments for transaction costs from prior year sale of business	(1,004)	---
Proceeds from sale of property, plant and equipment	26	90
Net cash outflow from investing activities	(13,089)	(31,857)
Cash flows from financing activities		
Proceeds from borrowings	15,891	2,235
Repayment of borrowings	(18,119)	(2,208)
Net cash (outflow)/inflow from financing activities	(2,228)	27
Net increase/(decrease) in cash and cash equivalents	11,991	(19,501)
Cash and cash equivalents at the beginning of the half-year	89,171	153,334
Effects of exchange rate changes on cash and cash equivalents	(1,470)	4,539
Cash and cash equivalents at the end of the half-year	99,692	138,372

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

Note 1. Segment information

Description of segments

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer (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 currently considers the business principally from a geographic perspective and has identified three reportable segments being Asia Pacific, Americas and Europe. The CEO monitors the performance of these geographic segments separately from individual countries as each region operates in similar economic and seasonal environments. Whilst the CEO reviews some brand specific information it is ultimately the geographic segment perspective which is used in assessing performance. 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:

Segment	This segment includes:
Asia Pacific	Australia, New Zealand, Japan, South Africa, Singapore and Indonesia
Americas	United States of America, Canada and Brazil
Europe	France, England, Spain, Germany and Czech Republic
Rest of the world	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).

(a) Segment information provided to the CEO

The segment information provided to the CEO for the reportable segments is as follows:

Half-year 2016	**Asia Pacific $'000**	**Americas $'000**	**Europe $'000**	**Rest of the World $'000**	**Total $'000**
Total including significant items					
Sales to external customers	231,339	192,093	84,887	---	508,319
Third party royalties	---	---	---	1,586	1,586
Total segment revenue	231,339	192,093	84,887	1,586	509,905
EBITDAI	19,181	(5,375)	3,439	1,586	18,831
Less: depreciation and amortisation					(14,578)
Less: net interest expense					(16,416)
Loss before income tax					(12,163)
Segment assets	319,545	296,982	96,416	---	712,943
Unallocated assets:					
Deferred tax					12,487
Total assets					725,430
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	5,208	7,970	669	---	13,847

Half-year 2015	Asia Pacific $'000	Americas $'000	Europe $'000	Rest of the World $'000	Total $'000
Total including significant items					
Sales to external customers	243,904	219,926	98,045	---	561,875
Third party royalties	---	---	---	1,833	1,833
Total segment revenue	243,904	219,926	98,045	1,833	563,708
EBITDAI	29,525	(3,693)	7,575	1,833	35,240
Less: depreciation and amortisation					(16,320)
Less: net interest expense					(16,818)
Profit before income tax					2,102
Segment assets	362,418	312,876	116,005	---	791,299
Unallocated assets:					
Deferred tax					16,821
Total assets					808,120
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	9,088	13,884	765	---	23,737

Note 2. Taxes

Critical accounting estimates and judgments

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.

In the majority of jurisdictions, the Group only recognises a deferred tax asset to the extent it offsets a deferred tax liability. This is on the basis that it is not considered probable that sufficient taxable profits will be generated in those jurisdictions to utilise a deferred tax asset in excess of the deferred tax liability. The main exceptions to this position are Australia, Japan and New Zealand where the deferred tax asset being recognised exceeds the deferred tax liability (on the basis that recovery of the deferred tax asset is probable). With the exception of New Zealand, no deferred tax asset is being recognised in respect of any tax losses on the basis that all conditions including Continuity of Ownership tests may not be met and utilisation of any tax losses in the other jurisdictions is not considered probable.

Income tax expense

	Half-year 2016 $'000	Half-year 2015 $'000
(a) Income tax expense		
Current tax	1,440	3,371
Deferred tax	2,472	466
Adjustments of prior periods	(25)	(148)
	3,887	3,689
Deferred income tax expense included in income tax expense comprises:		
(Increase)/decrease in deferred tax assets	2,142	371
(Decrease)/increase in deferred tax liabilities	330	95
	2,472	466

	Half-year 2016 $'000	Half-year 2015 $'000
(b) Reconciliation of income tax expense/(benefit) to prima facie tax payable		
(Loss)/profit from continuing operations before income tax expense	(12,163)	2,102
Tax at the Australian tax rate of 30%	(3,649)	631
Tax effect of amounts which are not (taxable)/deductible in calculating taxable income:		
Net exempt expense	313	114
Sundry items	(686)	(4,876)
Other non-deductible permanent differences	843	940
	(3,179)	(3,191)
Difference in overseas tax rates	(230)	(1,836)
Over provision in prior years	(25)	(149)
Utilisation of prior year tax losses previously not recognised	(966)	(7,032)
Reinstatement of prior year temporary differences previously not recognised	---	(2,200)
Tax losses not recognised in current period	4,838	12,253
Temporary differences not recognised in current period	3,422	5,844
Foreign currency related items	27	---
Income tax expense	3,887	3,689
(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	30	(810)
	30	(810)
(d) Tax expense/(benefit) relating to items of other comprehensive income		
Cash flow hedges	1,733	(869)
	1,733	(869)

Note 3. Significant items

The following significant items would increase / (reduce) profit before income tax if excluded from the financial results:

	Half-year 2016 $'000	Half-year 2015 $'000
From continuing operations:		
Significant items included in cost of goods sold (note (a))		
Inventory adjustment	5,007	---
	5,007	---
Significant items included in other income		
Insurance settlement	---	(5,000)
Gain from adjustment to contingent consideration	---	(2,413)
	---	(7,413)
Significant items included in selling, general and administrative expenses (note (b))		
Strategy and other restructuring costs	2,462	5,200
Redundancy costs	1,304	699
RVCA compensation expense	758	3,472
	4,524	9,371
Significant items included in other expenses (note (c))		
Loss from adjustment to contingent consideration	873	---
Divestment costs in relation to prior year divestment of immaterial operations	112	---
	985	---
Total significant items	10,516	1,958

Explanations for the 31 December 2016 significant items are listed below:

(a) Significant items included in cost of goods sold

(i) Inventory adjustment
During the period, an adjustment to inventory was required as part of a continuous improvement project that the Group undertook to improve the accuracy and consistent application across the Group of costing and valuation methodologies. This resulted in an adjustment to United States of America and Canada inventory of $5.0 million relating to prior periods.

(b) Significant items included in selling, general and administrative expenses

(i) Strategy and other restructuring costs
As a result of the strategy announced to the market in December 2013 following the appointment of CEO Neil Fiske, significant consulting costs were incurred, as work was and continues to be undertaken to develop and implement the restructure of the Group.

In the half-year ended 31 December 2016 restructuring initiatives include consulting costs in relation to the supply chain reconfiguration and other key strategic priorities.

(ii) Redundancy costs
During the half-year ended 31 December 2016 as result of continued restructuring of the Group in line with the strategy restructuring plans, redundancy costs were incurred.

(iii) RVCA compensation expense
Under the terms of a contract with the founder of RVCA, announced to the market on 6 February 2014 and in accordance with Australian Accounting Standards, the Group is required to recognise through the income statement any deemed compensation expense attached to the employment arrangement which has been entered into. The financial aspects of the agreed contractual extension include an amendment to the 2015 earn out arrangements which were negotiated as part of the original acquisition in 2010, a new performance related component for the period to 2018, and the issue of 240,000 ten year options exercisable at $3.00 per option. These resulted in non-cash accounting items for the half-year ended 31 December 2016. These will only become a cash item if the required targets under the agreement are met in future reporting periods. RVCA compensation expense is considered to be a significant item given its nature is outside of normal trading.

(c) Significant items included in other expenses

(i) Loss from adjustment to contingent consideration
In accordance with Australian Accounting Standards, adjustments to deferred consideration payable must be recorded through the income statement. This item relates to RVCA deferred consideration payable and is considered to be a significant item given its nature is outside of normal trading.

(ii) Divestment costs in relation to prior year divestment of immaterial operations
During the half-year ended 31 December 2016, further divestment costs were incurred in relation to the sale of Sector 9.

Information on the significant items from 31 December 2015 are disclosed in the annual report for the year ended 30 June 2016.

Note 4. Assets classified as held for sale

(a) Assets classified as held for sale

	Half-year 2016 $'000	Half-year 2015 $'000
Assets classified as held for sale	---	6,008
Total assets classified as held for sale	---	6,008

2015
As at 31 December 2015 the Group had entered into an unconditional contract for the sale of 225 Reedy Creek Road, Burleigh Heads, a property located next to the Group's head office and occupied presently by SurfStitch. The property was considered to be an asset held for sale as at 31 December 2015. Subsequent to balance sheet date, on 14 January 2016 the Group completed the sale of the property for a purchase price of $6.2 million with total costs of the sale being $0.2 million.

Note 5. Impairment of intangible assets

Critical accounting estimates and judgments

Estimated impairment of goodwill and indefinite life intangibles
The Group tests annually, or when indicators of impairment arise, 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. The recoverable amounts of the cash-generating units (CGUs) have been determined based on value-in-use (VIU) calculations. 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.

(a) Impairment tests for goodwill and brands

For the half-year report, detailed impairment testing is only performed for those brands or CGUs where there is an indication that the relevant assets may be impaired. At 31 December 2016 this was the case for the following CGUs resulting in the calculation of the recoverable amount of the relevant CGUs in line with the requirements of AASB 136 *Impairment of Assets.*

Carrying value	**Goodwill**		**Brands**	
	31 December 2016 $'000	30 June 2016 $'000	**31 December 2016 $'000**	30 June 2016 $'000
Kustom	---	---	7,752	7,752
New Zealand	4,585	4,495	---	---
	4,585	4,495	7,752	7,752

The impairment testing of the above CGUs concluded that no impairment charge was required to be recognised for the half-year ended 31 December 2016.

(b) Key assumptions used for fair value less costs of disposal calculations

The recoverable amounts of the CGUs in the table below have been determined using fair value less costs of disposal. In applying the FVLCD approach, the recoverable amount of a CGU is assessed using market based valuation techniques such as comparable transactions and observable trading multiples. The CGU's headroom amounts are sensitive to movements in both EBITDA and multiple (due to EBITDA being an unobservable input the fair value is considered to be a level 3 fair value valuation technique). EBITDA includes certain allocations of Group costs. The following key assumptions shown in the table below have been used in the calculations.

31 December 2016	**Multiple**	**Headroom* $'m**	**Impact on headroom of -10% change in EBITDA $'m**	**Impact on headroom of a -1 times change in multiple $'m**
Kustom	6.5	---	(2.1)	(2.6)
New Zealand	5.0	---	(1.8)	(2.8)

* Headroom is the difference between the carrying value and the FLVCD calculation for the CGU.

The EBITDA multiple that could be achieved for a brand divestment was reassessed and a 6.5 times multiple was deemed appropriate for brands subject to FVLCD calculations.

Note 6. Equity securities issued

(a) Treasury shares

Movements in treasury shares during the half-year	2016 Shares '000s	2016 $'000
Opening balance at 1 July	(408)	(20,431)
Employee share scheme issue	36	99
Deferred tax credit recognised directly in equity	---	30
Closing balance at 31 December	(372)	(20,302)

Note 7. Dividends

The Board has not declared an interim ordinary dividend for the half-year ended 31 December 2016, nor for the half-year ended 31 December 2015. The Dividend Reinvestment Plan (DRP) remains suspended.

Note 8. Fair value measurements

The Group has a number of financial instruments which are not measured at fair value in the balance sheet. For the majority of these instruments, the fair values approximate their carrying amounts. Differences between the carrying amount and fair value were identified for the following instruments at 31 December 2016:

	Carrying amount		Fair value	
	31 December 2016 $'000	30 June 2016 $'000	31 December 2016 $'000	30 June 2016 $'000
Lease liabilities (current and non-current)	2,048	2,928	1,997	2,827
Term loan facility	279,992	264,956	289,926	271,660

In regards to the term loan facility the difference between the carrying amount and the fair value amount above is the prepaid borrowing costs.

The Group has no reason to believe that the terms and conditions on borrowings represent anything other than fair value.

The fair values are classified as level 3 fair values due to the use of unobservable inputs, including own credit risk. Refer to (a) below.

(a) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the Australian Accounting Standards.

Level 1
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 did not hold any of these financial instruments at 31 December 2016 or 30 June 2016.

Level 2
The fair value of financial instruments that are not traded in an active market (for example, forward exchange contracts) are determined using valuation techniques. These instruments are included in level 2 and comprise of derivative financial instruments. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. The valuation of foreign currency forward contracts is based upon the forward rate applicable at valuation date (available from dealer quotes for similar instruments or the counterparty of the forward contract). The future cash flow is then discounted back at the risk-free rate applying at that time. The derivative financial instruments held at 31 December 2016 and 30 June 2016 were recognised at fair value using level 2 valuation method.

Level 3
In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3. The Group did not hold any of these financial instruments at 31 December 2016 or 30 June 2016.

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the half-year.

Note 9. Related party transactions

(a) Transactions with other related parties

In addition to the interest paid (refer to (c) below) the following transactions occurred with other related parties:

	Half-year 2016 $	Half-year 2015 $
Expense reimbursement		
Oaktree Capital Management, L.P	---	8,568
Centerbridge Partners, L.P	174,610	85,353
Term loan amendment		
Oaktree Capital Management, L.P	2,097,502	---
Centerbridge Partners, L.P	2,097,502	---
Non-Executive Director remuneration		
Oaktree Capital Management, L.P	---	18,521

Since 30 June 2016, the Group agreed with Centerbridge Partners, L.P and Oaktree Capital Management, L.P various amendments to the Group's senior secured term loan facility. Those amendments included certain relaxations of the Group's financial undertakings under the facility, and on the restrictions on the Group's use of proceeds from asset sales. The Group paid $4.2 million in fees to Centerbridge Partners, L.P and Oaktree Capital Management, L.P in return for certain of those amendments.

Effective onwards from the financial year ended 30 June 2016, Jason Mozingo requested to waive his board fees as his board duties are part of his responsibilities as a Senior Managing Director at Centerbridge Partners, L.P.

(b) Outstanding balances arising from transactions with other related parties

Expense reimbursement payable	31 December 2016 $	31 December 2015 $
Oaktree Capital Management, L.P	---	160
Centerbridge Partners, L.P	14,800	---

(c) Loans from related parties

Oaktree Capital Management, L.P	Half-year 2016 $	Half-year 2015 $
Opening balance at 1 July	135,830,084	132,656,250
Interest charged	8,154,791	8,570,177
Interest paid in cash	(4,083,037)	(8,668,059)
Exchange differences	5,060,981	7,830,222
Closing balance at 31 December	144,962,819	140,388,590
Interest paid in kind	4,152,241	---

Centerbridge Partners, L.P	Half-year 2016 $	Half-year 2015 $
Opening balance at 1 July	135,830,084	132,656,250
Interest charged	8,154,791	8,570,177
Interest paid in cash	(4,083,037)	(8,668,059)
Exchange differences	5,060,981	7,830,222
Closing balance at 31 December	144,962,819	140,388,590
Interest paid in kind	4,152,241	---

(d) 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.

Note 10. Contingencies

There has been no change in the nature of contingencies of the consolidated entity since the last annual reporting date.

Note 11. Events occurring after the balance sheet date

On 23 February 2017 the Company announced that it has entered into binding documentation to sell the Tigerlily business to Crescent Capital Partners. The transaction is in line with the Group's strategy to simplify its brand portfolio.

The sale of Tigerlily will raise $60 million, with net proceeds from the sale used to retire term loan debt. The transaction will impact the Asia Pacific operating segment.

Tigerlily's revenue was approximately $30 million for the twelve month period ended 31 December 2016 and on a full year basis was expected to contribute between $7 million and $8 million in EBITDAI to the Group for the financial year ended 30 June 2017.

The transaction is subject to conditions precedent which are typical for transactions of this type, with completion expected before the end of the current financial year.

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

Note 12. Summary of significant accounting policies

This interim financial report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Billabong International Limited (the Company) during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.* The financial report covers the consolidated entity consisting of Billabong International Limited and its subsidiaries (the Group or consolidated entity).The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(a) New and amended accounting standards adopted by the Group

A number of new or amended standards became applicable for current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

Note 12. Summary of significant accounting policies (continued)

(b) Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

Title of standard	Summary and impact on Group's financial statements	Application date for Group financial year ending
AASB 9 Financial Instruments	AASB 9 replaces AASB 139 and addresses the classification, measurement and derecognition of financial assets and financial liabilities. It also addresses the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs and risk components that can be hedged. AASB 9 introduces a new expected-loss impairment model that will require entities to account for expected credit losses at the time or recognising the asset. The Group does not expect the adoption of the new standard to have a material impact on its classification and measurement of the financial assets and liabilities, its hedging arrangements or its results on adoption of the new impairment model. The Group has decided not to early adopt AASB 9.	30 June 2019
AASB 15 Revenue from contracts with customers	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The Group has identified the following areas that are likely to be affected: - Rights of return: AASB 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation. The Group is still currently evaluating the impact of the new standard. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group has decided not to early adopt AASB 15.	30 June 2019
AASB 16 Leases	AASB 16 will result in the recognition of almost all leases on the balance sheet, as the distinction between operating and financing leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. Given the number of retail stores, offices and warehouses the Group leases under operating leases, and at 30 June 2016 non-cancellable operating lease commitments held by the Group of $214.6 million, it is expected that the impact of this standard will be significant. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's income statement and classification of cash flows. Due to the timing of issue of the new standard, the Group is still currently evaluating the impact of the new standard. The Group has decided not to early adopt AASB 16.	30 June 2020

In the Directors' opinion:

(a) the financial statements and notes set out on pages 8 to 19 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 consolidated entity's financial position as at 31 December 2016 and of its performance for the half-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.

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

Ian Pollard
Chair

Gold Coast
24 February 2017

Independent auditor's review report to the members of Billabong International Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Billabong International Limited (the company), which comprises the balance sheet as at 31 December 2016, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Billabong International Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Billabong International Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Independent auditor's review report to the members of Billabong International Limited (continued)

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Billabong International Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

K. Stubbins

Kristin Stubbins
Partner

Sydney
24 February 2017