



# Billabong International Limited

ABN 17 084 923 946

## Contents

	Page
Appendix 4D	2
Directors' report	3
Auditor's independence declaration	9
Income statement	10
Statement of comprehensive income	11
Balance sheet	12
Statement of changes in equity	14
Cash flow statement	15
Notes to the financial statements	16
Directors' declaration	34
Independent auditor's review report to the members	35

## :: INTERIM FINANCIAL REPORT 31 DECEMBER 2014

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 2014 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](mailto:secretary@billabong.com.au)  
Corporate website: [www.billabongbiz.com](http://www.billabongbiz.com)

## APPENDIX 4D Half-yearly Report

### Billabong International Limited ABN 17 084 923 946

Extracts from this report for announcement to the market.

	Half-year		Change	
	2014 \$'000	2013 \$'000	\$'000	%
Total revenue from ordinary activities	541,148	669,990	(128,842)	(19.2%)
Profit/(loss) from ordinary activities after tax attributable to members	25,712	(126,287)	151,999	n/a
Net profit/(loss) for the period attributable to members	25,712	(126,287)	151,999	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 2014.

The Dividend Reinvestment Plan (DRP) remains suspended.

#### 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 2014.

**Directors**

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

G.S. Merchant  
H. Mowlem  
S.A.M Pitkin  
I. Pollard  
N. Fiske  
J. Mozingo  
A. Doshi (Alternate Director to J. Mozingo)  
M. Wilson  
T. Casarella (Alternate Director to M. Wilson)

**Operating and Financial Review****Group financial performance**

The Group results for the period and the prior corresponding period (pcp) include certain significant items including but not limited to a fair value adjustment charge, costs associated with the various control and/or refinancing proposals announced over the last two to three years and the restructuring of the Group's operations pursuant to the various strategic reform programs announced in August 2012 and December 2013. Refer to note 4 of the half-year financial report for detailed disclosure in relation to these items.

During the period the Group sold its 51% stake in the multi-brand ecommerce business SurfStitch.com in Australia and Europe ("SurfStitch") and its 100% ownership of Swell.com in North America ("Swell") (sale of both SurfStitch and Swell completed 5 September 2014).

The prior year results also include significant tax charges in relation to the write off of deferred tax assets and the non-recognition of tax losses.

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 (and the impact of currency movements on the translation of the Group's international operations into AUD), the Segment results are presented in three separate tables.

Table A presents the segment results on a basis including all significant items and including the operations of SurfStitch and Swell (and in the pcp DaKine and West 49) for the relevant period of ownership. See Table A "Segment Results As Reported – Including significant items and discontinued operations".

Table B presents the results on two bases. The first of these excludes significant items while the second excludes significant items and discontinued operations. Hence in the latter case SurfStitch and Swell are excluded from both the current year and pcp (and previously divested businesses DaKine and West 49 are removed from the pcp). See Table B "Adjusted Segment Results – Continuing Operations (As Reported) – Excluding significant items and discontinued operations".

Table C presents the results on the same two bases as in Table B but 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 prior period comparative. The constant currency comparatives are not compliant with Australian Accounting Standards. See Table C "Adjusted Segment Results – Continuing Operations (Constant Currency) – Excluding significant items and discontinued operations".

Operating and Financial Review (continued)

Table A: Segment Results As Reported – Including significant items and discontinued operations

	Segment revenues		Segment EBITDAI*	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Asia Pacific	246,820	272,484	16,942	16,405
Americas	200,722	295,990	8,440	(16,848)
Europe	89,964	98,489	26,675	(7,831)
Third party royalties	1,683	1,560	1,683	1,560
Segment revenues / EBITDAI*	539,189	668,523	53,740	(6,714)
Less: Net interest expense			(13,396)	(19,239)
Depreciation and amortisation			(17,348)	(19,992)
Fair value adjustment on reclassification of West 49 as held for sale during the prior year			---	(17,718)
Profit/(Loss) before income tax expense			22,996	(63,663)
Income tax benefit/(expense)			1,118	(64,664)
Profit/(Loss) after income tax expense			24,114	(128,327)
Profit/(Loss) attributable to non-controlling interests			1,598	2,040
Profit/(Loss) attributable to members of Billabong International Limited			25,712	(126,287)

\* 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).

Table B: Adjusted Segment Results – Continuing Operations (As Reported) – Excluding significant items and discontinued operations

Adjusted EBITDAI by Segment:	2014 Excluding significant items \$'000	2014 Excluding significant items and discontinued operations* \$'000	2013 Excluding significant items \$'000	2013 Excluding significant items and discontinued operations* \$'000
Asia Pacific	31,138	31,489	34,450	32,915
Americas	4,515	5,051	8,202	11,039
Europe	2,949	4,586	(3,023)	(492)
Third party royalties	1,683	1,683	1,560	1,560
Adjusted EBITDAI	40,285	42,809	41,189	45,022
Less: Depreciation and amortisation	(17,348)	(16,690)	(19,992)	(16,657)
Net interest expense	(13,396)	(13,383)	(19,239)	
Adjusted net profit before income tax benefit	9,541	12,736	1,958	
Adjusted income tax benefit	1,118	1,118	2,306	
Adjusted net profit after income tax benefit	10,659	13,854	4,264	
Loss attributable to non-controlling interest	1,598	---	2,040	
Adjusted net profit attributable to members of Billabong International Limited	12,257	13,854	6,304	

\* Excludes SurfStitch, Swell, DaKine and West 49.

The Group results for the period and the pcg include certain significant items including but not limited to fair value adjustment charges, costs associated with the various control and/or refinancing proposals announced over the last two to three years and the restructuring of the Group's operations pursuant to the various strategic reform programs announced in August 2012 and December 2013 (collectively significant items). Refer to note 4 of the half-year financial report for detailed disclosure in relation to these items.

Operating and Financial Review (continued)

**Table C: Adjusted Segment Results – Continuing Operations (Constant Currency)\*\* – Excluding significant items and discontinued operations**

Adjusted EBITDAI by Segment:	2014 Excluding significant items \$'000	2014 Excluding significant items and discontinued operations* \$'000	2013 Excluding significant items \$'000	2013 Excluding significant items and discontinued operations* \$'000
Asia Pacific	31,138	31,489	34,437	32,902
Americas	4,515	5,051	8,480	11,372
Europe	2,949	4,586	(3,067)	(537)
Third party royalties	1,683	1,683	1,560	1,560
Adjusted EBITDAI	40,285	42,809	41,410	45,297
Less: Depreciation and amortisation	(17,348)	(16,690)	(18,643)	(15,357)
Net interest expense	(13,396)	(13,383)	(20,775)	
Adjusted net profit before income tax benefit	9,541	12,736	1,992	
Adjusted income tax benefit	1,118	1,118	1,668	
Adjusted net profit after income tax benefit	10,659	13,854	3,660	
Loss attributable to non-controlling interest	1,598	---	2,040	
Adjusted net profit attributable to members of Billabong International Limited	12,257	13,854	5,700	

\* Excludes SurfStitch, Swell, DaKine and West 49.

\*\* 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. The Group's segment information for the prior period has therefore also been presented 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 prior period comparative. The constant currency comparatives are not compliant with Australian Accounting Standards.

Adjusted EBITDAI excludes pre-tax significant items of income and expense. Refer to note 4 of the half-year financial report 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 Profit After Tax for the half-year ended 31 December 2014 was \$25.7 million compared to a Net Loss After Tax of \$126.3 million in the prior corresponding period (pcp). The results were impacted by the abovementioned significant items and the sale of SurfStitch and Swell in the current half-year and DaKine and West 49 in previous periods.

*Group performance excluding significant items and excluding discontinued operations*

Group sales to external customers of \$522.1 million, excluding third party royalties, represents an as reported 0.5% decrease on the pcp. In constant currency terms Group revenues decreased 1.1% on the pcp. In constant currency terms, sales revenue in Asia Pacific decreased 1.0%, the Americas decreased 1.3% and Europe decreased 0.8% compared with the pcp.

Consolidated gross margins were 54.9% (55.4% in the pcp). Adjusting for the impact of divestments consolidated gross margins were 54.3% (53.1% in the pcp).

**Operating and Financial Review (continued)**

Adjusted EBITDAI excluding discontinued operations of \$42.8 million for the period compares to \$45.0 million for the pcpc. This is a decrease of 4.9% (a decrease of 5.5% in constant currency terms).

The Adjusted EBITDAI excluding discontinued operations was impacted by:

- In Asia Pacific Adjusted EBITDAI was down \$1.4 million (4.3%) compared to the pcpc with revenues being 1.5% lower than the pcpc in as reported terms (1.0% in constant currency terms), with the effect of the lower AUD impacting gross margins in the wholesale business and weak comparable store sales trading in Australia.
- In Americas Adjusted EBITDA was down \$6.0 million (54.2%) compared to the pcpc. Revenue was up 0.9% compared to the pcpc in as reported terms (down 1.3% in constant currency terms). This result is largely due to weakness in the Canadian market both in general terms and reflecting a lower wholesale contribution following the sale of West 49 in February 2014. In the United States brands Billabong and RVCA are showing sales growth on the pcpc on a like for like basis however Element has remained weak during the half.
- In Europe Adjusted EBITDAI was up \$5.1 million compared to the pcpc which is the result of a significant improvement in gross margins (from 49.0% to 57.0%) on the pcpc due to focus on key accounts and territories and contracting the customer set to reduce low margin customers.

*Group performance including significant items and including discontinued operations*

Group sales to external customers of \$537.5 million, excluding third party royalties, represents a 19.4% decrease on the pcpc in as reported terms or a decrease of 19.6% in constant currency terms.

At a segment level, in as reported terms, sales revenue in the Americas decreased 32.2%, Europe decreased 8.7% and Asia Pacific decreased 9.4% compared with the pcpc reflecting the SurfStitch and Swell revenues included for the whole of the pcpc however only for the period 1 July 2014 to 5 September 2014 in the current year, the West 49 revenues included for the whole of the pcpc however not in the current year (as West 49 was divested in February 2014). The prior year also has DaKine revenues included for the period 1 July 2013 to 23 July 2013.

EBITDAI of \$53.7 million for the period compares to a \$6.7 million loss for the pcpc. The current year includes significant item income of \$13.5 million compared to an expense of \$47.9 million for the pcpc so excluding significant items the EBITDAI is \$40.3 million compared to \$41.2 million in the pcpc including the results of the discontinued operations – with these figures impacted by the divestment trading differences noted in the aforementioned sales revenue commentary. In addition to the significant items and divestment differences the comparison is impacted by the trading matters noted above.

*Significant items*

Pre-tax significant items for the half-year ended 31 December 2014 is a net income of \$13.5 million increasing EBITDAI and arising primarily from the gain on sale of SurfStitch and Swell.

Pre-tax significant items for the half-year ended 31 December 2013 of \$65.6 million includes \$17.7 million of fair value adjustment to assets held for sale and \$47.9 million of items decreasing EBITDAI.

Refer to note 4 of the half-year financial report for detailed disclosure in relation to these items.

*Depreciation and amortisation expense*

Depreciation and amortisation expense of \$16.7 million (excluding significant items and excluding divestments) remained flat in reported terms compared to the pcpc (\$16.7 million).

*Fair value adjustment on reclassification of West 49 as held for sale during the year – relates to the half-year ended 31 December 2013*

On 4 November 2013 the Group announced that it had entered into an agreement to sell its Canadian retail chain, West 49, to YM Inc. As at 31 December 2013 West 49 was reported as an asset held for sale and a discontinued operation. The assets were adjusted to their fair value with a \$17.7 million expense recognised based on information available at 31 December 2013 balance sheet date using the terms of the sales agreement.

*Net interest expense*

The decrease in net interest expense from \$19.2 million to \$13.4 million was driven by the Term Loan Facility which was reduced from US\$360 million to US\$203.8 million following the completion of the C/O Placement and the Rights issue in February and March 2014 respectively.

**Operating and Financial Review (continued)***Income tax expense*

The aggregate income tax benefit for the period ended 31 December 2014 was \$1.1 million. The Company estimates that it is not probable for income tax profits to be generated in a period where all of the conditions for utilisation of the deferred tax assets will be met and has therefore recognised its deferred tax assets only to the extent of its available deferred tax liabilities.

*Consolidated balance sheet, cash flow items and capital expenditure*

Working capital at \$147.4 million represents 13.8% of the prior twelve months' sales (excluding West 49, SurfStitch and Swell external sales) stated at half-year end exchange rates, being 1.1% higher compared to the pcg of 12.7% (excluding DaKine North America and Europe wholesale external sales). Whilst underlying working capital has reduced from 30 June 2014, working capital as a percentage of sales at December 2014 compared to December 2013 is higher primarily due to the divestments being retail businesses with inherently lower working capital balances (SurfStitch, Swell and West 49 working capital was still part of the Group's balance sheet as at 31 December 2013).

Cash inflow from operating activities was \$13.7 million, compared to an outflow of \$27.3 million in the pcg, principally because the prior year included the impact of the costs of the refinancing. Receipts from customers net of payments to suppliers and employees of \$25.4 million were lower compared to \$47.6 million in the pcg which is partly due to the divestments and timing of cash generation in a retail vs wholesale business.

Cash inflow from investing activities of \$26.2 million includes the proceeds from the sale of SurfStitch and Swell.

Net debt decreased from \$175.0 million in the pcg to \$56.7 million, principally reflecting the aforementioned C/O Placement, 2014 Rights issue, proceeds from sale of businesses offset in part by significant item payments, financing charge, capital expenditure and foreign exchange differences.

**Significant changes in the state of affairs**

The statement below should be read in conjunction with note 41 (events occurring after the balance sheet date) of the annual report for the year ended 30 June 2014 and any public announcements made by the Company during the interim period.

On 5 September 2014 the Group sold its 51% stake in the multi-brand ecommerce business SurfStitch in Australia and Europe and its 100% ownership of Swell in North America.

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

**Matters subsequent to the end of the half-year**

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 of the Group, 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**

This year, the second half earnings will benefit from the fact that from February the Group will be cycling the West 49 business on a comparable wholesale basis and as such very little of contraction in contribution from West 49 will carry over to the result, however the Group faces the complexity of the contrary impacts of a lower Australian dollar. While benefiting from the conversion of the US dollar earnings into a higher AUD equivalent, the Group is exposed to higher costs to import products into markets such as Australia. In addition a long-running industrial dispute at major Californian ports, while heading for resolution, still has the potential to slow the flow of new product and disrupt what is positive momentum in the US market.

Overall the Group anticipates the December half will, this year, continue to be weighted as the strongest contributor to the Group's overall EBITDA, although more consistent improvements in the North American wholesale earnings will over time, reduce that bias.

**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 9.

**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, 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 has not been reviewed in accordance with Australian Auditing Standards.

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



Ian Pollard  
Chairman  
Gold Coast, 26 February 2015





## **Auditor's independence declaration**

As lead auditor for the review of Billabong International Limited for the half-year ended 31 December 2014, 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  
26 February 2015

---

**PricewaterhouseCoopers, ABN 52 780 433 757**  
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171  
T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation

**Income statement**  
For the half-year ended 31 December 2014 : :

	Notes	Half-year 2014 \$'000	Half-year 2013 \$'000
<b>Revenue from continuing operations</b>		525,758	527,245
Cost of goods sold		(237,560)	(236,419)
Other income		10,573	7,619
Selling, general and administrative expenses		(203,219)	(217,151)
Other expenses		(66,883)	(58,964)
Finance costs		(16,189)	(57,211)
<b>Profit/(loss) before income tax from continuing operations</b>		12,480	(34,881)
Income tax benefit/(expense)	5	1,118	(70,332)
<b>Profit/(loss) from continuing operations</b>		13,598	(105,213)
Profit/(loss) from discontinued operations after income tax	6	10,516	(23,114)
<b>Profit/(loss) for the half-year</b>		24,114	(128,327)
Loss attributable to non-controlling interests		1,598	2,040
<b>Profit/(loss) for the half-year attributable to the members of Billabong International Limited</b>		25,712	(126,287)
<b>Earnings per share from continuing operations attributable to the ordinary equity holders of the Company</b>		Cents	Cents
Basic earnings per share		1.5	(21.7)
Diluted earnings per share		1.5	(21.7)
<b>Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company</b>		Cents	Cents
Basic earnings per share		2.6	(26.6)
Diluted earnings per share		2.6	(26.6)

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

**Statement of comprehensive income**  
For the half-year ended 31 December 2014 : :

	Notes	Half-year 2014 \$'000	Half-year 2013 \$'000
<b>Profit/(Loss) for the half-year</b>		24,114	(128,327)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges, net of tax		6,050	(1,458)
Exchange differences on translation of foreign operations		(5,436)	7,022
Net investment hedge, net of tax		4,897	(3,247)
<b>Other comprehensive income for the half-year, net of tax</b>		5,511	2,317
<b>Total comprehensive income/(expense) for the half-year</b>		29,625	(126,010)
Loss attributable to non-controlling interests		1,598	2,040
<b>Total comprehensive income/(expense) for the half-year attributable to members of Billabong International Limited</b>		31,223	(123,970)
<b>Total comprehensive income/(expense) for the half-year attributable to members of Billabong International Limited arises from:</b>			
Continuing operations		20,707	(100,856)
Discontinued operations	6	10,516	(23,114)
		31,223	(123,970)

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

**Balance sheet**  
As at 31 December 2014 : :

	Notes	31 December 2014 \$'000	30 June 2014 \$'000	31 December 2013 \$'000
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		195,144	145,070	266,528
Trade and other receivables		143,883	153,850	141,258
Inventories		189,324	180,222	208,344
Current tax receivables		2,714	3,202	6,376
Other		21,666	13,457	19,633
Assets classified as held for sale	6	---	---	22,615
<b>Total current assets</b>		<b>552,731</b>	<b>495,801</b>	<b>664,754</b>
<b>Non-current assets</b>				
Receivables		8,831	10,275	9,138
Property, plant and equipment		94,225	94,305	102,378
Intangible assets		150,362	143,664	181,364
Deferred tax assets		648	840	---
Other		7,103	6,981	795
<b>Total non-current assets</b>		<b>261,169</b>	<b>256,065</b>	<b>293,675</b>
<b>Total assets</b>		<b>813,900</b>	<b>751,866</b>	<b>958,429</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		203,258	185,687	181,862
Borrowings		6,778	7,358	9,538
Current tax liabilities		3,752	4,179	4,922
Provisions		20,920	28,447	33,661
Liabilities directly associated with assets classified as held for sale	6	---	---	21,673
<b>Total current liabilities</b>		<b>234,708</b>	<b>225,671</b>	<b>251,656</b>
<b>Non-current liabilities</b>				
Borrowings		245,114	212,033	432,058
Deferred tax liabilities		---	---	---
Provisions and other payables		22,918	31,570	39,378
Deferred payment		---	23,556	41,475
<b>Total non-current liabilities</b>		<b>268,032</b>	<b>267,159</b>	<b>512,911</b>
<b>Total liabilities</b>		<b>502,740</b>	<b>492,830</b>	<b>764,567</b>
<b>Net assets</b>		<b>311,160</b>	<b>259,036</b>	<b>193,862</b>

**Balance sheet (continued)**  
As at 31 December 2014 ::

	Notes	31 December 2014 \$'000	30 June 2014 \$'000	31 December 2013 \$'000
<b>EQUITY</b>				
Contributed equity		1,094,274	1,094,274	910,836
Treasury shares		(20,959)	(22,508)	(22,508)
Option reserve		9,880	10,760	10,663
Other reserves		(96,460)	(111,215)	(104,460)
Retained losses		(675,575)	(701,287)	(593,862)
Capital and reserves attributable to members of Billabong International Limited		311,160	270,024	200,669
Non-controlling interests		---	(10,988)	(6,807)
<b>Total equity</b>		<b>311,160</b>	<b>259,036</b>	<b>193,862</b>

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

**Statement of changes in equity**  
For the half-year ended 31 December 2014 : :

	Attributable to members of Billabong International Limited				Non-con- trolling interests	
	Contri- buted equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000	\$'000	Total \$'000
<b>Balance at 1 July 2013</b>	910,836	(126,427)	(467,575)	316,834	(4,767)	312,067
Loss for the half-year	---	---	(126,287)	(126,287)	(2,040)	(128,327)
Other comprehensive income	---	2,317	---	2,317	---	2,317
<b>Total comprehensive expense for the half-year</b>	---	2,317	(126,287)	(123,970)	(2,040)	(126,010)
<b>Transactions with equity holders in their capacity as equity holders:</b>						
Option reserve in respect of employee share plan	---	(34)	---	(34)	---	(34)
Fair value of options in respect of recapitalisation option issues	---	7,839	---	7,839	---	7,839
	---	7,805	---	7,805	---	7,805
<b>Balance at 31 December 2013</b>	910,836	(116,305)	(593,862)	200,669	(6,807)	193,862
<b>Balance at 1 July 2014</b>	1,094,274	(122,963)	(701,287)	270,024	(10,988)	259,036
Profit/(loss) for the half-year	---	---	25,712	25,712	(1,598)	24,114
Other comprehensive income	---	5,511	---	5,511	---	5,511
<b>Total comprehensive income for the half-year</b>	---	5,511	25,712	31,223	(1,598)	29,625
<b>Transactions with equity holders in their capacity as equity holders:</b>						
Option reserve in respect of employee share plan	---	669	---	669	---	669
Other equity reserve reclassified to income statement	---	9,244	---	9,244	---	9,244
Non-controlling interest reclassified to income statement	---	---	---	---	12,586	12,586
	---	9,913	---	9,913	12,586	22,499
<b>Balance at 31 December 2014</b>	1,094,274	(107,539)	(675,575)	311,160	---	311,160

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

**Cash flow statement**  
For the half-year ended 31 December 2014 : :

	<b>Half-year 2014 \$'000</b>	Half-year 2013 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of GST)	601,892	772,422
Payments to suppliers and employees (inclusive of GST)	(576,499)	(724,843)
	25,393	47,579
Interest received	770	454
Other revenue	1,954	3,031
Finance costs	(14,913)	(68,938)
Income taxes received/(paid)	481	(9,418)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>13,685</b>	<b>(27,292)</b>
<b>Cash flows from investing activities</b>		
Payments for purchase of subsidiaries and businesses, net of cash acquired	---	(17,748)
Payments for property, plant and equipment	(10,612)	(7,668)
Payments for intangible assets	(1,740)	(4,853)
Proceeds from sale of business, net of cash divested and transaction costs	38,439	82,256
Proceeds from sale of property, plant and equipment	157	90
<b>Net cash inflow from investing activities</b>	<b>26,244</b>	<b>52,077</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	---	873,608
Repayment of borrowings	---	(750,395)
<b>Net cash inflow from financing activities</b>	<b>---</b>	<b>123,213</b>
<b>Net increase in cash and cash equivalents</b>	<b>39,929</b>	<b>147,998</b>
Cash and cash equivalents at the beginning of the half-year	145,070	113,324
Effects of exchange rate changes on cash and cash equivalents	10,145	4,080
<b>Cash and cash equivalents at the end of the half-year</b>	<b>195,144</b>	<b>265,402</b>
<b>(a) Reconciliation to cash at the end of the half-year</b>		
Balance per consolidated balance sheet	195,144	266,528
Bank overdrafts	---	(1,240)
Cash classified as held for sale (note 6)	---	114
<b>Balance per consolidated cash flow statement</b>	<b>195,144</b>	<b>265,402</b>

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

## **Note 1. Basis of preparation for the half-year report**

This interim financial report for the half-year reporting period ended 31 December 2014 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 2014 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.

### **Changes in accounting standards**

A number of new or amended standards became applicable for the 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.

#### **Impact of standards issued but not yet applied by the entity**

- (i) *AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transaction Disclosures (effective from 1 January 2018)*

In AASB 9, the AASB added requirements for the classification and measurement of financial liabilities that are generally consistent with the equivalent requirements in AASB 139 except in respect of the fair value option; and certain derivatives linked to unquoted equity instruments. The AASB also added the requirements in AASB 139 in relation to the derecognition of financial assets and financial liabilities to AASB9. AASB9 retained but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in AASB 139 on hedge accounting continues to apply as long as hedge accounting provisions in AASB 2013-9 are not applied. 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 2018 and is not expected to have a significant impact on the financial statements.

- (ii) *AASB 15 Revenue from contracts with customers (effective from 1 January 2017)*

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (eg 1 July 2017), ie without restating the comparative period. The Group will only need to apply the new rules to contracts that are not completed as of the date of initial application. 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 2017 and the Group will continue to review the impact of these changes on the financial statements.

- (iii) *Annual Improvements to IFRSs 2012-2014 cycle (effective reporting periods beginning 1 January 2016)*

The IASB approved a number of amendments to International Financial Reporting Standards as a result of the annual improvements project. While the AASB has not yet made equivalent amendments to the Australian Accounting Standards, they are expected to be issued in the first quarter of 2015. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

There are no other standards that are not yet effective and are expected to have a material impact on the consolidated entity in the current or future reporting periods and on foreseeable future transactions.



## **Note 2. 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 most significant estimates and assumptions made in the interim financial statements that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below. Other critical accounting estimates and judgements are disclosed in the annual report for the year ended 30 June 2014.

### *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 stated in note 1(i) of the annual report for the year ended 30 June 2014. The recoverable amounts of the cash-generating units (CGU's) 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.

If the VIU of a CGU is lower than its carrying amount, then the CGU's fair value less costs of disposal (FVLCD) is determined as AASB 136 requires the recoverable amount of a CGU to be the higher of VIU and FVLCD. 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.

### *Taxation*

The Company estimates that it is not probable for income tax profits to be generated in a period where all of the conditions for utilisation of the deferred tax assets will be met and has therefore recognised its deferred tax assets only to the extent of its available deferred tax liabilities. The Group will continue to review this position each reporting period. Refer to note 5.

### **Note 3.      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 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. 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:

##### *Asia Pacific*

This segment includes Australia, New Zealand, Japan, South Africa, Singapore and Indonesia.

##### *Americas*

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

##### *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).

In the 2014 financial year, the measurement of geographical segment assets were revised to exclude related party balances and deferred tax assets. As a consequence, the 2013 segment assets have been restated.

#### **(b) Segment information provided to the CEO**

The segment information provided to the CEO for the reportable segments for the half-year ended 31 December 2014 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) below.

**Note 3. Segment information (continued)**

**(b) Segment information provided to the CEO (continued)**

Half-year 2014	Asia Pacific \$'000	Americas \$'000	Europe \$'000	Rest of the World \$'000	Total \$'000
<b>Total from continuing and discontinued operations including significant items</b>					
Sales to external customers	246,820	200,722	89,964	---	537,506
Third party royalties	---	---	---	1,683	1,683
Total segment revenue	246,820	200,722	89,964	1,683	539,189
EBITDAI	16,942	8,440	26,675	1,683	53,740
Less: depreciation and amortisation					(17,348)
Less: net interest expense					(13,396)
Profit before income tax					22,996
Segment assets	400,316	284,776	128,160	---	813,252
Unallocated assets:					
Deferred tax					648
Total assets					813,900
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	8,072	3,509	1,028	---	12,609
Half-year 2013	Asia Pacific \$'000	Americas \$'000	Europe \$'000	Rest of the World \$'000	Total \$'000
<b>Total from continuing and discontinued operations including significant items</b>					
Sales to external customers	272,484	295,990	98,489	---	666,963
Third party royalties	---	---	---	1,560	1,560
Total segment revenue	272,484	295,990	98,489	1,560	668,523
EBITDAI	16,405	(16,848)	(7,831)	1,560	(6,714)
Less: depreciation and amortisation					(19,992)
Less: fair value adjustment to assets held for sale during the prior year					(17,718)
Less: net interest expense					(19,239)
Loss before income tax					(63,663)
Segment assets	393,961	424,775	139,693	---	958,429
Unallocated assets:					
Deferred tax					---
Total assets					958,429
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	3,184	7,421	2,621	---	13,226

**Note 3. Segment information (continued)****(c) Breakdown of segment results between continuing and discontinued operations**

The table below is a breakdown of the total segment results shown in (b) above between continuing and discontinued operations.

**Half-year  
2014****From continuing operations  
including significant items**

Sales to external customers

Third party royalties

Total segment revenue

EBITDAI

Less: depreciation and amortisation

Less: net interest expense

Profit before income tax

Asia Pacific \$'000	Americas \$'000	Europe \$'000	Rest of the World \$'000	Total \$'000
237,244	196,930	87,949	---	522,123
---	---	---	1,683	1,683
237,244	196,930	87,949	1,683	523,806
26,078	7,182	7,610	1,683	42,553
				(16,690)
				(13,383)
				12,480

**Half-year  
2014****From discontinued operations  
including significant items**

Sales to external customers

Third party royalties

Total segment revenue

EBITDAI

Less: depreciation and amortisation

Less: net interest expense

Profit before income tax (note 6)

Asia Pacific \$'000	Americas \$'000	Europe \$'000	Rest of the World \$'000	Total \$'000
9,576	3,792	2,015	---	15,383
---	---	---	---	---
9,576	3,792	2,015	---	15,383
(9,136)	1,258	19,065	---	11,187
				(658)
				(13)
				10,516

**Note 3. Segment information (continued)**

**(c) Breakdown of segment results between continuing and discontinued operations (continued)**

Half-year 2013	<b>Asia Pacific \$'000</b>	<b>Americas \$'000</b>	<b>Europe \$'000</b>	<b>Rest of the World \$'000</b>	<b>Total \$'000</b>
<b>From continuing operations including significant items</b>					
Sales to external customers	240,951	195,198	88,357	---	524,506
Third party royalties	---	---	---	1,560	1,560
Total segment revenue	240,951	195,198	88,357	1,560	526,066
EBITDAI	15,794	(11,778)	(4,482)	1,560	1,094
Less: depreciation and amortisation					(16,657)
Less: impairment charges					---
Less: net interest expense					(19,318)
Loss before income tax					(34,881)
Half-year 2013	<b>Asia Pacific \$'000</b>	<b>Americas \$'000</b>	<b>Europe \$'000</b>	<b>Rest of the World \$'000</b>	<b>Total \$'000</b>
<b>From discontinued operations including significant items</b>					
Sales to external customers	31,533	100,792	10,132	---	142,457
Third party royalties	---	---	---	---	---
Total segment revenue	31,533	100,792	10,132	---	142,457
EBITDAI	611	(5,070)	(3,349)	---	(7,808)
Less: depreciation and amortisation					(3,335)
Less: impairment charges					---
Less: fair value adjustment to assets held for sale during the prior year					(17,718)
Add: net interest income					79
Loss before income tax (note 6)					(28,782)

## **Note 4. Significant items**

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

	<b>Half-year 2014 \$'000</b>	Half-year 2013 \$'000
<b>From continuing operations:</b>		
<i>Significant items included in cost of goods sold (note (a))</i>		
Net realisable value shortfall expense on inventory	1,986	2,384
	1,986	2,384
<i>Significant items included in other income (note (b))</i>		
Term debt repayment foreign exchange derivative impact	---	(7,177)
Gain from adjustment to contingent consideration	(9,678)	---
	(9,678)	(7,177)
<i>Significant items included in selling, general and administrative expenses (note (c))</i>		
Potential control or refinancing proposal costs	---	1,595
Turnaround strategy and other restructuring costs	5,793	5,072
South American sales tax provision	---	4,072
Redundancy costs	1,084	2,644
RVCA compensation expense	1,071	---
	7,948	13,383
<i>Significant items included in finance costs</i>		
Borrowing costs	---	35,338
	---	35,338
Total significant items from continuing operations	256	43,928
<b>From discontinued operations (note 6):</b>		
<i>Significant items included in discontinued operations</i>		
Transaction costs West 49	---	1,863
Fair value adjustment to assets held for sale during the prior year	---	17,718
DaKine loss on sale, net of transaction costs	---	1,189
SurfStitch compensation and other expense	---	923
SurfStitch and Swell gain on sale, net of transaction costs	(13,711)	---
Total significant items from discontinued operations	(13,711)	21,693
<b>Total significant items</b>	(13,455)	65,621

#### **Note 4. Significant items (continued)**

Explanations for the 31 December 2014 significant items are listed below:

**(a) Significant items included in cost of goods sold**

*(i) Net realisable value shortfall expense on inventory*

Adjustment to Australian inventory balances regarding unrealised profit elimination.

**(b) Significant items included in other income**

*(i) Gain 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 which was restated taking into account the latest Board approved forecasts and is considered to be a significant item given its nature is outside of normal trading.

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

*(i) Turnaround strategy and other restructuring costs*

As a result of the turnaround 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.

Restructuring initiatives include the exit of certain geographies, conversion to distributor models in certain geographies and/or the exit of certain brands in particular geographies where those brands are sub-scale. These initiatives were intended to simplify the operations of the Group and enable management to focus on those areas of the business which will deliver the greatest return.

*(ii) Redundancy costs*

As a result of continued restructuring of the Americas in line with the turnaround strategy restructuring plans, redundancy costs were incurred during the half-year ended 31 December 2014.

*(iii) RVCA compensation expense*

Under the terms of the new contract with Pat Tenore, the founder of RVCA, announced to the market on 6 February 2014 and in accordance with Australian Accounting Standards, the Company 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 1.2 million ten year options exercisable at \$0.60 per option. This is a non-cash accounting item for the half-year ended 31 December 2014. This will only become a cash item if the required targets under the agreement are met in future reporting periods. This is considered to be a significant item given its nature is outside of normal trading.

Information on the significant items from 31 December 2013 are disclosed in the annual report for the year ended 30 June 2014.

#### **Note 5. Income tax expense and deferred taxes**

The aggregate income tax benefit for the period ended 31 December 2014 was \$1.1 million. The Company estimates that it is not probable for income tax profits to be generated in a period where all of the conditions for utilisation of the deferred tax assets will be met and has therefore recognised its deferred tax assets only to the extent of its available deferred tax liabilities.

**Note 6. Assets and liabilities classified as held for sale and discontinued operations**

**2014**

On 5 September 2014 the Company completed the sale of its 51% stake in SurfStitch and its 100% ownership of Swell to a consortium of investors including SurfStitch founders Justin Cameron and Lex Pedersen for a purchase price of more than \$35 million comprising sale proceeds, loan repayments and other consideration. The results of SurfStitch and Swell have been reported in these financial statements as discontinued operations.

**2013**

On 23 July 2013 the Company announced it had sold the DaKine brand and its operations to Altamont for a purchase price of \$70 million. The results of DaKine were reported in the 31 December 2013 financial statements as a discontinued operation.

On 4 November 2013 the Group announced that it had entered an agreement to sell its Canadian retail chain, West 49, to YM Inc. The Group also announced that it had entered into an approximate CAD\$34 million non-exclusive wholesale agreement with YM Inc. over the next two years. West 49 was reported in the half-year 31 December 2013 financial statements as a discontinued operation and asset classified as held for sale as the sale was not completed as at 31 December 2013. Refer to the annual report for the year ended 30 June 2014 in relation to the completion of the sale post balance sheet date.

Financial information relating to the discontinued operations for the half-years ended 31 December 2014 and 31 December 2013 is set out below.

**(a) Assets classified as held for sale**

	<b>Half-year 2014 \$'000</b>	Half-year 2013 \$'000
Disposal group held for sale (discontinued operation - refer to (c) below)		
Cash and cash equivalents	---	114
Trade and other receivables	---	1,585
Inventories	---	20,613
Other	---	303
Total assets of disposal group held for sale	---	22,615

**(b) Liabilities directly associated with assets classified as held for sale**

	<b>Half-year 2014 \$'000</b>	Half-year 2013 \$'000
Disposal group held for sale (discontinued operation - refer to (c) below)		
Trade and other payables	---	21,048
Provisions	---	625
	---	21,673



**Note 6. Assets and liabilities classified as held for sale and discontinued operations (continued)**

**(c) Discontinued operations**

*(i) Financial performance and cash flow information*

The financial performance and cash flow information presented are for the half-year ended 31 December 2014 and the half-year ended 31 December 2013.

	<b>Half-year 2014 \$'000</b>	Half-year 2013 \$'000
Revenue	15,390	142,745
Expenses	(18,585)	(170,338)
Loss before income tax	(3,195)	(27,593)
Income tax benefit	---	5,668
Loss after income tax from discontinued operation	(3,195)	(21,925)
Gain/(loss) on sale, net of transaction costs before income tax	13,711	(1,189)
Income tax	---	---
Gain/(loss) on sale, net of transaction costs after income tax	13,711	(1,189)
Gain/(loss) from discontinued operation	10,516	(23,114)

  

	<b>Half-year 2014 \$'000</b>	Half-year 2013 \$'000
Net cash inflow/(outflow) from operating activities	167	(5,948)
Net cash inflow from investing activities *	37,801	69,000
Net cash inflow from financing activities	---	---
Net increase in cash generated by discontinued operations	37,968	63,052

\* 2014 includes proceeds from sale of SurfStitch and Swell, net of cash divested and transaction costs totalling \$38.5 million. Partially offsetting the \$38.5 million are payments for property, plant and equipment.

\* 2013 includes an inflow of \$69.2 million from the sale of DaKine (net of transaction costs) and outflow from payments for property, plant and equipment of \$1.4 million.

**Note 6. Assets and liabilities classified as held for sale and discontinued operations (continued)**

**(c) Discontinued operations (continued)**

*(ii) Details of the sale of SurfStitch and Swell*

	<b>2014 \$'000</b>
Consideration received or receivable:	
Cash net of transaction costs	38,439
Total disposal consideration	<u>38,439</u>
Carrying value of net assets sold	(14,812)
Foreign currency translation reserve reclassified to income statement	313
Other derivative liabilities reclassified to income statement	9,054
Provisions for employee entitlements reclassified to income statement	1,074
Non-controlling interest reclassified to income statement	(12,586)
Related party receivables retained	1,473
Other equity reserve reclassified to income statement	<u>(9,244)</u>
Gain on sale, net of transaction costs before income tax	13,711
Income tax	---
Gain on sale, net of transaction costs after income tax	<u><u>13,711</u></u>

The carrying value of assets and liabilities as at the date of sale (5 September 2014) were:

	<b>5 September 2014 Carrying value \$'000</b>
Cash and cash equivalents	1,472
Trade and other receivables	1,291
Inventory	22,887
Prepayments	678
Plant and equipment	2,428
Identifiable intangible assets	5,950
Deferred tax assets	226
Total assets	<u>34,932</u>
Trade and other payables	(18,779)
Borrowings	(313)
Employee Entitlements	(802)
Deferred tax liabilities	<u>(226)</u>
Total liabilities	<u>(20,120)</u>
Net assets	<u><u>14,812</u></u>

## **Note 7. Equity securities issued**

	Half-year		Half-year	
	<b>2014 Shares</b>	2013 Shares	<b>2014 \$'000</b>	2013 \$'000
<b>Movements in treasury shares during the half-year</b>				
Employee share scheme issue	1,209,160	650,091	1,549	2,353
Net movement	1,209,160	650,091	1,549	2,353

## **Note 8. Dividends**

The Board has not declared an interim ordinary dividend for the half-year ended 31 December 2014 and nor for the half-year ended 31 December 2013.

The Dividend Reinvestment Plan (DRP) remains suspended.

## **Note 9. Net tangible asset backing**

	<b>Half-year 2014</b>	Half-year 2013
Net tangible asset backing per ordinary share	\$0.16	\$0.03

## **Note 10. Contingencies**

### **Contingent Consideration**

As at 31 December 2014 the deferred consideration relating to the RVCA acquisition has been fully recognised taking into account the latest Board approved forecast. The contingent consideration of \$8.4 million as at 31 December 2014 was classified as trade and other payables in current liabilities.

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).

### **Potential Class Action**

As announced on 6 March 2014 the Company became aware of media reports suggesting that Slater & Gordon, a law firm, was preparing to commence a class action on behalf of a number of investors in relation to the Company's trading update announcement made on 19 December 2011. As at 31 December 2014 the Company has not been served with any proceedings in relation to this matter. The Company will vigorously defend claims of the nature described in the reports which relate to events that occurred more than three years ago.

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

## **Note 11. Events occurring after the balance sheet date**

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 of the Group, 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. Financial risk management

### (a) Fair value measurements

#### (i) Fair value hierarchy

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

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 accounting standards.

The following table presents the Group's assets and liabilities measured and recognised at fair value at 31 December 2014 and 30 June 2014.

#### At 31 December 2014

##### Recurring fair value measurements

###### Financial assets

Forward exchange contracts – cash flow hedges	---	7,258	---	7,258
Total financial assets	---	7,258	---	7,258

###### Financial Liabilities

Forward exchange contracts – cash flow hedges	---	23	---	23
Contingent consideration	---	---	8,377	8,377
Total financial liabilities	---	23	8,377	8,400

#### At 30 June 2014

##### Recurring fair value measurements

###### Financial assets

Forward exchange contracts – cash flow hedges	---	91	---	91
Total financial assets	---	91	---	91

###### Financial Liabilities

Forward exchange contracts – cash flow hedges	---	1,830	---	1,830
Contingent consideration	---	---	15,709	15,709
Derivative liability	---	---	9,054	9,054
Total financial liabilities	---	1,830	24,763	26,593

## **Note 12. Financial risk management (continued)**

### **(a) Fair value measurements (continued)**

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

#### *Recurring fair value measurements*

##### *Level 1*

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) and 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 31 December 2014 or 30 June 2014.

##### *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.

##### *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. This is the case for contingent consideration and derivative liabilities.

### **(b) Fair value measurements using significant unobservable inputs (Level 3)**

#### **Contingent consideration**

The following table presents the changes in level 3 instruments for the half-year ended 31 December 2014 and year ended 30 June 2014:

#### **Changes in contingent consideration**

	<b>December 2014 \$'000</b>	June 2014 \$'000
Balance at beginning of period	15,709	19,286
Unwind of discount	---	711
Amounts recognised in other income (note 10)	(9,678)	---
Amounts recognised in expenses	---	(2,552)
Exchange losses/(gains)	2,346	(1,736)
Balance at end of period	<u>8,377</u>	<u>15,709</u>

##### *(i) Valuation inputs and relationships to fair value*

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements for the half-year ended 31 December 2014:

Description	Fair Value \$'000	Unobservable inputs	Range of inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Contingent Consideration Payable	8,377	EBITDA	\$17.0 million - \$20.7 million (\$18.8 million)	If the expected EBITDA was 10% higher or lower, the fair value would increase/decrease \$4.5m.

##### *(ii) Valuation processes*

Valuations of contingent consideration payable are performed by the finance department of the Group based on the four year business plan projecting forecast profitability and cash flows prepared by management and approved by the Board.

**Note 12. Financial risk management (continued)**

**(b) Fair value measurements using significant unobservable inputs (Level 3) (continued)**

**Derivative liabilities**

The following table presents the changes in level 3 instruments for the half-year ended 31 December 2014 and year ended 30 June 2014:

**Changes in derivative liabilities**

	<b>December 2014 \$'000</b>	June 2014 \$'000
Balance at beginning of period	9,054	12,922
Unwind of discount	---	646
Amounts recognised in other income	---	(4,514)
Amounts recognised in other income (note 6 (c)(ii))	(9,054)	---
Balance at end of period	---	9,054

**(c) Other fair value measurements**

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 market interest rate that is adjusted for own credit risk. Refer to the 30 June 2014 financial report for further information.

## Note 13. Impairment of intangible assets

### (a) Impairment tests for goodwill and brands

For the half-year report, detailed impairment testing is only performed for those brands or CGU's where there is any indication that the relevant assets may be impaired. At 31 December 2014 this was the case for the following two brands resulting in the calculation of the recoverable amount of the relevant CGU's in line with the requirements of AASB 136 *Impairment of Assets*.

#### Carrying Value

	Goodwill		Brands	
	31 December 2014 \$'000	30 June 2014 \$'000	31 December 2014 \$'000	30 June 2014 \$'000
Xcel	3,989	3,450	4,174	3,609
Kustom	---	---	8,785	8,785
	3,989	3,450	12,959	12,394

The impairment testing of the above CGU's concluded that no impairment charge was required to be recognised for the half-year ended 31 December 2014.

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

The recoverable amounts of the CGU's in the table below have been determined using fair value less costs of disposal (FVLCD). 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.

	Multiple	Headroom* \$'m	Impact on headroom of -10% change in EBITDA \$'m	Impact on headroom of a -1 times change in multiple \$'m
<b>31 December 2014</b>				
Xcel	8.0	1.5	(1.2)	(1.7)
Kustom	8.0	---	(1.7)	(2.1)

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

**Note 14. Related party transactions**

**(a) Parent entities**

The ultimate parent entity within the Group is Billabong International Limited.

**(b) Subsidiaries**

Interests in subsidiaries are disclosed in note 39 in the annual report for the year ended 30 June 2014.

**(c) Key management personnel**

Disclosures relating to key management personnel (including CEO Sign-on bonus) are set out in note 33 in the annual report for the year ended 30 June 2014.

**(d) Transactions with other related parties**

The following transactions occurred with other related parties:

	<b>Half-year 2014 \$</b>	Half-year 2013 \$
<i>Line fees and expense reimbursement</i>		
Oaktree Capital Management, L.P	97,941	400,700
Centerbridge Partners, L.P	148,271	537,302
<i>Non-Executive Director remuneration</i>		
Oaktree Capital Management, L.P	47,282	14,973
Centerbridge Partners, L.P	47,282	14,973

**(e) Outstanding balances arising from transactions with other related parties**

	<b>December 2014 \$</b>	December 2013 \$
<i>Line fees and expense reimbursement</i>		
Oaktree Capital Management, L.P	99,948	416,266
Centerbridge Partners, L.P	162,046	159,078



**Note 14. Related party transactions (continued)**

**(f) Loans from related parties**

	<b>Half-year December 2014 \$</b>	<b>Half-year December 2013 \$</b>
<i>Oaktree Capital Management, L.P</i>		
Balance at beginning of period	108,152,866	---
Loans advanced	---	193,735,097
Loan repayments received	---	---
Interest charged	6,971,308	3,376,843
Interest paid	(7,182,481)	(3,433,337)
Exchange differences	17,125,825	9,184,014
Balance at end of period	<u>125,067,518</u>	<u>202,862,617</u>
	<b>Half-year December 2014 \$</b>	<b>Half-year December 2013 \$</b>
<i>Centerbridge Partners, L.P</i>		
Balance at beginning of period	108,152,866	---
Loans advanced	---	193,735,097
Loan repayments received	---	---
Interest charged	6,971,308	3,376,843
Interest paid	(7,182,481)	(3,433,337)
Exchange differences	17,125,825	9,184,014
Balance at end of period	<u>125,067,518</u>	<u>202,862,617</u>

**(g) 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.

---

## Directors' declaration : :

---

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 10 to 33 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 2014 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Billabong International Limited 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  
Chairman

Gold Coast, 26 February 2015



## **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 2014, 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 (including the Australian Accounting Interpretations) 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 2014 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*.

---

**PricewaterhouseCoopers, ABN 52 780 433 757**

Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171

T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

*Liability limited by a scheme approved under Professional Standards Legislation*



## **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:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

K. Stubbins

Kristin Stubbins  
Partner

Sydney  
26 February 2015