Billabong International Limited

ABN 17 084 923 946

Contents

: : INTERIM FINANCIAL REPORT 31 DECEMBER 2015

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 2015 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:
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Corporate website: 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	
	2015 $'000	2014 $'000	$'000	%
Total revenue from ordinary activities	565,440	541,148	24,292	4.5%
(Loss)/profit from ordinary activities after tax attributable to members	(1,587)	25,712	(27,299)	n/a
Net (Loss)/profit for the period attributable to members	(1,587)	25,712	(27,299)	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 2015.

The Dividend Reinvestment Plan (DRP) remains suspended.

NTA backing	**Half-year 2015**	Half-year 2014
Net tangible asset backing per ordinary share	$0.54	$0.81

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 2015.

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:

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

M. Wilson was a Director from the beginning of the financial period until his resignation on 8 September 2015.

T. Casarella was an Alternate Director to M. Wilson from the beginning of the financial period until his resignation on 8 September 2015.

Operating and Financial Review

Group financial performance
The Group results for the period and the prior corresponding period ("pcp") include certain significant items. Refer to note 4 of the half-year financial report 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 and including the operations of SurfStitch and Swell in the pcp for the relevant period of ownership. See Table A "Segment Results As Reported – Including significant items and discontinued operations".

Table B presents the results excluding significant items and discontinued operations (SurfStitch and Swell are excluded from the pcp). See Table B "Adjusted Segment Results – Continuing Operations As Reported – 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*	
	2015 $'000	2014 $'000	**2015 $'000**	2014 $'000
Asia Pacific	243,904	246,820	29,525	16,942
Americas	219,926	200,722	(3,693)	8,440
Europe	98,045	89,964	7,575	26,675
Third party royalties	1,833	1,683	1,833	1,683
Segment revenues / EBITDAI*	563,708	539,189	35,240	53,740
Less: Depreciation and amortisation			(16,320)	(17,348)
Net interest expense			(16,818)	(13,396)
Profit before income tax expense			2,102	22,996
Income tax expense/(benefit)			(3,689)	1,118
(Loss)/profit after income tax expense			(1,587)	24,114
Loss attributable to non-controlling interests			---	1,598
(Loss)/profit attributable to members of Billabong International Limited			(1,587)	25,712

* 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:	**2015 Excluding significant items $'000**	2014 Excluding significant items and discontinued operations* $'000
Asia Pacific	29,602	31,489
Americas	(1,902)	5,051
Europe	7,665	4,586
Third party royalties	1,833	1,683
Adjusted EBITDAI	37,198	42,809
Less: Depreciation and amortisation	(16,320)	(16,690)
Net interest expense	(16,818)	
Adjusted net profit before income tax expense	4,060	
Adjusted income tax expense	(5,889)	
Adjusted net loss attributable to members of Billabong International Limited	(1,829)	

* Excludes SurfStitch and Swell.

The Group results for the period and the pcp include certain 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)

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. 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 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 Loss After Tax for the half-year ended 31 December 2015 was $1.6 million compared to a Net Profit After Tax of $25.7 million in the pcp. The results were impacted by the abovementioned significant items in both years and the sale of SurfStitch and Swell in the pcp. Profit before income tax expense for the half-year ended 31 December 2015 was $2.1 million compared to $23.0 million in the pcp.

Group performance excluding significant items and excluding discontinued operations
Group sales to external customers of $561.9 million, excluding third party royalties, represents an as reported 7.6% increase on the pcp. In constant currency terms Group revenues decreased 0.8% on the pcp. In constant currency terms, sales revenue in Asia Pacific increased 1.2%, the Americas decreased 4.8% and Europe increased 4.0% compared with the pcp.

Consolidated gross margins were 51.7% (54.9% in the pcp). Adjusting for the impact of divestments, consolidated gross margins were 54.3% in the pcp.

Adjusted EBITDAI excluding significant items and discontinued operations of $37.2 million for the period compares to $42.8 million for the pcp. This is a decrease of 13.1% (a decrease of 18.8% in constant currency terms).

Operating and Financial Review (continued)

The Adjusted EBITDAI excluding discontinued operations was impacted by:

- In Asia Pacific
  - Revenue was 2.8% higher than the pcp in as reported terms (up 1.2% in constant currency terms) and adjusted EBITDAI was down $1.9 million (6.0%) compared to the pcp.
  - During the period the lower AUD, relative to the USD, increased input prices and impacted gross margins compared to the pcp.
  - Comparable store sales trading across the region was 1.0% lower compared to the pcp. In terms of Australia specifically, comparable store sales were up 0.6% on the pcp.

- In Americas
  - Revenue was 11.7% higher than the pcp in as reported terms (down 4.8% in constant currency terms) and adjusted EBITDAI was down $6.9 million compared to the pcp (down $9.2 million in constant currency terms).
  - The sales decline of $11.0 million on a constant currency basis can primarily be attributed to reductions in brick and mortar retail (down 13.6% on a constant currency basis in North America including the planned closure of the Times Square store during the pcp) and North American comparable store sales which were down 5.1% on the pcp. In the US wholesale channel RVCA and Element grew sales. Ecommerce revenues were up in excess of 30%.
  - Gross margins were down from 49.5% to 46.5% reflecting pressure from excess inventory. Adjusting for the impact of divestments gross margins were 48.8% in the pcp.
  - Sector 9 EBITDAI was down $2.5 million compared to the pcp.
  - Overheads were down on the pcp in constant currency terms.

- In Europe
  - Revenue was 11.5% higher than the pcp in as reported terms (up 4.0% in constant currency terms) and adjusted EBITDAI was up $3.1 million compared to the pcp.
  - Comparable store sales were up 6.0% on the pcp.
  - The region had lower gross margins than the pcp primarily due to the effect of foreign exchange on input prices.
  - Overheads were down 9.9% in constant currency terms excluding the allocation of global overhead costs.

Group performance including significant items and including discontinued operations
Group sales to external customers of $561.9 million, excluding third party royalties, represents a 4.5% increase on the pcp in as reported terms or a decrease of 3.6% in constant currency terms.

At a segment level, in as reported terms, sales revenue in the Americas increased 9.6%, Europe increased 9.0% and Asia Pacific decreased 1.2% compared with the pcp partly reflecting the SurfStitch and Swell revenues included for the period 1 July 2014 to 5 September 2014 in the pcp, however not in the current year.

EBITDAI of $35.2 million for the period compares to $53.7 million for the pcp. The current year includes significant items expense of $2.0 million compared to income of $13.5 million for the pcp. 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 2015 was a net expense of $2.0 million which decreased EBITDAI.

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

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 $16.3 million decreased 2.2% in reported terms compared to the pcp ($16.7 million) when excluding discontinued operations.

Operating and Financial Review (continued)

Net interest expense
The increase in net interest expense from $13.4 million to $16.8 million was driven by foreign exchange differences. On a constant currency basis net interest expense was $16.6 million in the pcp.

Income tax expense
The aggregate income tax expense for the period ended 31 December 2015 was $3.7 million. The Group continues to estimate 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 in most tax jurisdictions, with the main exceptions being Australia, Japan and New Zealand.

Consolidated balance sheet, cash flow items and capital expenditure
Working capital at $163.6 million represents 14.8% of the prior twelve months' sales stated at year end exchange rates, being 1.0% higher compared to the pcp of 13.8% (excluding Surfstitch, Swell and West 49). Working capital as a percentage of sales at December 2015 compared to December 2014 is higher relating to North American inventory increases due to a combination of accelerated buying for the Spring 2016 season, disruption to normal buying and delivery schedules at the time of the West Coast of the US port strike which contributed to the region buying excess inventory.

Cash inflow from operating activities was $12.3 million, compared to $13.7 million in the pcp. Receipts from customers net of payments to suppliers and employees of $22.8 million were $2.6 million lower compared to the pcp ($25.4 million), primarily due to the aforementioned trading results being lower than the pcp.

Cash outflow from investing activities of $31.9 million includes the RVCA deferred consideration initial instalment payment of $9.9 million and capex of $22.0 million. The prior year had cash inflow from investment activities of $26.2 million which included the proceeds from the sale of SurfStitch and Swell of $38.4 million offset in part by capex of $12.2 million. Capex is up $9.8 million compared to the pcp and primarily due to investment in the Omni-Channel project.

Net debt increased from $113.5 million as at 30 June 2015 to $144.1 million, largely reflecting foreign exchange differences, financing charges, capital expenditure and the initial instalment of the RVCA deferred consideration.

Significant changes in the state of affairs
The statement below should be read in conjunction with any public announcements made by the Company during the interim period.

On 7 December 2015 the consolidation of all of the Company's shares and options on a 5:1 basis as approved by shareholders on 24 November 2015 was completed.

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
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.

Other than the item mentioned 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 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
EBITDAI for January and February 2016 combined is expected to be ahead of the pcp. The result for the remaining four months the financial year will be particulary influenced by the large trading month of June 2016 in North America. Overall, the Directors expect the second half to benefit from the implementation of our key initiatives and a less pronounced bias of the Group's earnings to the first half than last year.

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
Chair

Gold Coast, 26 February 2016

Auditor's independence declaration

As lead auditor for the review of Billabong International Limited for the half-year ended 31 December 2015, 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 2016

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	Notes	**Half-year 2015 $'000**	Half-year 2014 $'000
Revenue from continuing operations		565,440	525,758
Cost of goods sold		(271,294)	(237,560)
Other income		7,458	10,573
Selling, general and administrative expenses		(218,752)	(203,219)
Other expenses		(61,282)	(66,883)
Finance costs		(19,468)	(16,189)
Profit before income tax from continuing operations		2,102	12,480
Income tax (expense)/benefit	5	(3,689)	1,118
(Loss)/profit from continuing operations		(1,587)	13,598
Profit from discontinued operations after income tax	6	---	10,516
(Loss)/profit for the half-year		(1,587)	24,114
Loss attributable to non-controlling interests		---	1,598
(Loss)/profit for the half-year attributable to the members of Billabong International Limited		(1,587)	25,712
Earnings per share from continuing operations attributable to the ordinary equity holders of the Company		Cents	Cents
Basic earnings per share	9	(0.8)	7.7
Diluted earnings per share	9	(0.8)	7.6
Earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company		Cents	Cents
Basic earnings per share	9	(0.8)	13.0
Diluted earnings per share	9	(0.8)	12.9

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

	Notes	Half-year 2015 $'000	Half-year 2014 $'000
(Loss)/profit for the half-year		(1,587)	24,114
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges, net of tax		(1,419)	6,050
Exchange differences on translation of foreign operations		8,373	(5,436)
Net investment hedge, net of tax		(6,331)	4,897
Other comprehensive income for the half-year, net of tax		623	5,511
Total comprehensive (expense)/income for the half-year		(964)	29,625
Loss attributable to non-controlling interests		---	1,598
Total comprehensive (expense)/income for the half-year attributable to members of Billabong International Limited		(964)	31,223
Total comprehensive (expense)/income for the half-year attributable to members of Billabong International Limited arises from:			
Continuing operations		(964)	20,707
Discontinued operations	6	---	10,516
		(964)	31,223

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

Balance sheet
As at 31 December 2015 : :

	Notes	**31 December 2015 $'000**	30 June 2015 $'000	31 December 2014 $'000
ASSETS				
Current assets				
Cash and cash equivalents		138,372	153,334	195,144
Trade and other receivables		131,681	164,504	143,883
Inventories		217,120	187,125	189,324
Current tax receivables		2,058	1,934	2,714
Assets classified as held for sale	6	6,008	---	---
Other		19,861	16,856	21,666
Total current assets		515,100	523,753	552,731
Non-current assets				
Receivables		7,230	7,202	8,831
Property, plant and equipment		87,554	89,504	94,225
Intangible assets		175,298	161,534	150,362
Deferred tax assets		16,821	15,384	648
Other		6,117	6,603	7,103
Total non-current assets		293,020	280,227	261,169
Total assets		808,120	803,980	813,900
LIABILITIES				
Current liabilities				
Trade and other payables		194,962	207,917	203,258
Borrowings		7,370	6,905	6,778
Current tax liabilities		3,798	4,115	3,752
Provisions		17,195	20,108	20,920
Total current liabilities		223,325	239,045	234,708
Non-current liabilities				
Borrowings		275,113	259,950	245,114
Deferred tax liabilities		---	---	---
Provisions and other payables		28,456	23,401	22,918
Total non-current liabilities		303,569	283,351	268,032
Total liabilities		526,894	522,396	502,740
Net assets		281,226	281,584	311,160

	Notes	**31 December 2015 $'000**	30 June 2015 $'000	31 December 2014 $'000
EQUITY				
Contributed equity		1,094,274	1,094,274	1,094,274
Treasury shares		(20,431)	(20,959)	(20,959)
Option reserve		10,742	10,664	9,880
Other reserves		(104,635)	(105,258)	(96,460)
Retained losses		(698,724)	(697,137)	(675,575)
Capital and reserves attributable to members of Billabong International Limited		281,226	281,584	311,160
Total equity		281,226	281,584	311,160

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

	Attributable to members of Billabong International Limited					
	Contri-buted equity $'000	**Reserves $'000**	**Retained earnings $'000**	**Total $'000**	**Non-con-trolling interests $'000**	**Total $'000**
Balance at 1 July 2014	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
Total comprehensive income/(expense) for the half-year	---	5,511	25,712	31,223	(1,598)	29,625
Transactions with equity holders in their capacity as equity holders:						
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
Balance at 31 December 2014	1,094,274	(107,539)	(675,575)	311,160	---	311,160
Balance at 1 July 2015	1,094,274	(115,553)	(697,137)	281,584	---	281,584
Loss for the half-year	---	---	(1,587)	(1,587)	---	(1,587)
Other comprehensive income	---	623	---	623	---	623
Total comprehensive income/(expense) for the half-year	---	623	(1,587)	(964)	---	(964)
Transactions with equity holders in their capacity as equity holders:						
Option reserve in respect of employee share plan	---	288	---	288	---	288
Deferred tax credit recognised directly in equity	---	318	---	318	---	318
	---	606	---	606	---	606
Balance at 31 December 2015	1,094,274	(114,324)	(698,724)	281,226	---	281,226

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

	Half-year 2015 $'000	Half-year 2014 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of sales taxes)	635,135	601,892
Payments to suppliers and employees (inclusive of sales taxes)	(612,301)	(576,499)
	22,834	25,393
Interest received	345	770
Other revenue	9,519	1,954
Finance costs	(18,460)	(14,913)
Income taxes (paid)/received	(1,909)	481
Net cash inflow from operating activities	12,329	13,685
Cash flows from investing activities		
Payments for deferred consideration	(9,875)	---
Payments for property, plant and equipment	(13,862)	(10,612)
Payments for intangible assets	(8,210)	(1,740)
Proceeds from sale of business, net of cash divested and transaction costs	---	38,439
Proceeds from sale of property, plant and equipment	90	157
Net cash (outflow)/inflow from investing activities	(31,857)	26,244
Cash flows from financing activities		
Proceeds from borrowings	2,235	---
Repayment of borrowings	(2,208)	---
Net cash inflow from financing activities	27	---
Net (decrease)/increase in cash and cash equivalents	(19,501)	39,929
Cash and cash equivalents at the beginning of the half-year	153,334	145,070
Effects of exchange rate changes on cash and cash equivalents	4,539	10,145
Cash and cash equivalents at the end of the half-year	138,372	195,144

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 2015 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 2015 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 AASB 9. AASB 9 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 2018)

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 2018), 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 2019. At this stage, the Group is not able to estimate the effect of the new rules on the Group's financial statements.

(iii) AASB 16 Leases (effective from 1 January 2019)

This standard was issued on 13 January 2016 by the International Accounting Standards Board and applies to accounting periods commencing on or after 1 January 2019. There is no current Australian equivalent standard, though it is expected that the standard will be adopted by the Australian Accounting Standards Board ('AASB') with little or no change. Given the number of retail stores, offices and warehouses the Group leases under operating leases, it is expected that the impact of this standard will be significant. Specifically, new assets will be realised (the right to use the leased asset) as well as new liabilities, being the liability to pay rentals. The consolidated statement of comprehensive income will also be affected. Once this standard is adopted by the AASB the Group will assess the full impact of this standard on the financial statements and report on this in future financial statements. The standard would not be effective before the annual reporting period ending 30 June 2020.

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 2015.

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 2015. 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 or forecasting process. Assumptions used in impairment testing are detailed in note 17 of the annual report for the year ended 30 June 2015.

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 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.

Given the Group is in a period of restructuring, and having regard to the existing financial structure, it has been estimated that it is not probable in all tax jurisdictions for taxable profits to be generated in a period where all the conditions including Continuity of Ownership tests for utilisation of the assets will be met. In such tax jurisdictions, carried forward tax losses and temporary differences have only been recognised as deferred tax assets to the extent of the available deferred tax liabilities. 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 from individual countries as each region operates in similar economic and seasonal environments. 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 the Czech Republic, England, France, Germany 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).

(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 2015 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 2015	**Asia Pacific $'000**	**Americas $'000**	**Europe $'000**	**Rest of the World $'000**	**Total $'000**
Total from continuing and discontinued operations 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

Half-year 2014	**Asia Pacific $'000**	**Americas $'000**	**Europe $'000**	**Rest of the World $'000**	**Total $'000**
Total from continuing and discontinued operations including significant items					
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

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 2015	**Asia Pacific $'000**	**Americas $'000**	**Europe $'000**	**Rest of the World $'000**	**Total $'000**
From continuing operations 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

Half-year 2015	**Asia Pacific $'000**	**Americas $'000**	**Europe $'000**	**Rest of the World $'000**	**Total $'000**
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)					---

Note 3. Segment information (continued)

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

Half-year 2014	Asia Pacific $'000	Americas $'000	Europe $'000	Rest of the World $'000	Total $'000
From continuing operations including significant items					
Sales to external customers	237,244	196,930	87,949	---	522,123
Third party royalties	---	---	---	1,683	1,683
Total segment revenue	237,244	196,930	87,949	1,683	523,806
EBITDAI	26,078	7,182	7,610	1,683	42,553
Less: depreciation and amortisation					(16,690)
Less: net interest expense					(13,383)
Profit before income tax					12,480

Half-year 2014	Asia Pacific $'000	Americas $'000	Europe $'000	Rest of the World $'000	Total $'000
From discontinued operations including significant items					
Sales to external customers	9,576	3,792	2,015	---	15,383
Third party royalties	---	---	---	---	---
Total segment revenue	9,576	3,792	2,015	---	15,383
EBITDAI	(9,136)	1,258	19,065	---	11,187
Less: depreciation and amortisation					(658)
Less: net interest expense					(13)
Profit before income tax (note 6)					10,516

Note 4. Significant items

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

From continuing operations:	Half-year 2015 $'000	Half-year 2014 $'000
Significant items included in cost of goods sold		
Net realisable value shortfall expense on inventory	---	1,986
	---	1,986
Significant items included in other income (note (a))		
Insurance settlement	(5,000)	---
Gain from adjustment to contingent consideration	(2,413)	(9,678)
	(7,413)	(9,678)
Significant items included in selling, general and administrative expenses (note (b))		
Turnaround Strategy and other restructuring costs	5,200	5,793
Redundancy costs	699	1,084
RVCA compensation expense	3,472	1,071
	9,371	7,948
Total significant items from continuing operations	1,958	256
From discontinued operations (note 6):		
Significant items included in discontinued operations		
SurfStitch and Swell gain on sale, net of transaction costs	---	(13,711)
Total significant items from discontinued operations	---	(13,711)
Total significant items	1,958	(13,455)

Explanations for the 31 December 2015 significant items are listed below:

(a) Significant items included in other income

(i) Insurance settlement
In the half-year ended 31 December 2015 the Company received an insurance settlement in relation to a legal dispute and this is considered to be a significant item given its nature is outside of normal trading.

(ii) 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 and is considered to be a significant item given its nature is outside of normal trading.

Note 4. Significant items (continued)

(b) 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.

In the half-year ended 31 December 2015 restructuring initiatives include consulting costs in relation to the supply chain reconfiguration and other key strategic priorities as part of the Turnaround Strategy.

(ii) Redundancy costs
During the half-year ended 31 December 2015 as result of continued restructuring of the Group in line with the Turnaround 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 2015. 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.

Information on the significant items from 31 December 2014 are disclosed in the annual report for the year ended 30 June 2015.

Note 5. Income tax expense and deferred taxes

The aggregate income tax expense for the half-year ended 31 December 2015 was $3.7 million. The Group continues to estimate 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 in most tax jurisdictions, with the main exceptions being Australia, Japan and New Zealand.

(a) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable

	Half-year 2015 $'000	Half-year 2014 $'000
Profit from continuing operations before income tax expense	2,102	12,480
Profit from discontinuing operation before income tax expense	---	10,516
	2,102	22,996
Tax at the Australian tax rate of 30%	631	6,899
Tax effect of amounts which are not (taxable)/deductible in calculating taxable income:		
Net exempt expense/(income)	114	(1,861)
Non-claimable credits	---	1,111
Sundry items	(4,876)	(5,139)
Amortisation of intangibles	---	(2,114)
Other non-deductible permanent differences	940	3,006
	(3,191)	1,902
Difference in overseas tax rates	(1,836)	577
Over provision in prior years	(149)	(430)
Prior year tax losses previously not recognised	(7,032)	(10,307)
Prior year temporary differences previously not recognised	(2,200)	---
Tax losses not recognised in current period	12,253	11,371
Other temporary differences not recognised in current period	5,844	(4,231)
Income tax expense/(benefit)	3,689	(1,118)

The Group has unrecognised tax losses and temporary differences which were disclosed in note 9(e) in the annual financial report for the year ended 30 June 2015. Utilisation of all tax losses is subject to various loss testing rules, including continuity of ownership tests, in the relevant tax jurisdictions.

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

(a) Assets classified as held for sale

	Half-year 2015 $'000	Half-year 2014 $'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 6. Assets classified as held for sale and discontinued operations (continued)

(b) Discontinued operations

2014
On 5 September 2014 the Group 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 were reported in the financial statements as discontinued operations.

The financial performance presented is for the half-year ended 31 December 2015 and the half-year ended 31 December 2014.

	Half-year 2015 $'000	Half-year 2014 $'000
Revenue	---	15,390
Expenses	---	(18,585)
Loss before income tax	---	(3,195)
Income tax	---	---
Loss after income tax from discontinued operation	---	(3,195)
Gain on sale, net of transaction costs before income tax	---	13,711
Income tax	---	---
Gain on sale, net of transaction costs after income tax	---	13,711
Gain from discontinued operation	---	10,516

Note 7. Equity securities issued

(a) Movements in ordinary share capital

On 7 December 2015 the consolidation of all of the Company's shares and options on a 5:1 basis as approved by shareholders on 24 November 2015 was completed. This resulted in a reduction of the number of shares on issue without a corresponding reduction in the share capital.

Date	Details	Number of shares	$'000
1 July 2015	Opening balance	990,370,034	1,091,323
7 December 2015	Share consolidation	(792,290,924)	---
31 December 2015	Closing balance	198,079,110	1,091,323

Note 7. Equity securities issued (continued)

(b) Movement in treasury shares

Date	Details	Number of shares	$'000
1 July 2015	Opening balance	2,485,417	(20,959)
1 September 2015	Employee share scheme issue	(443,553)	210
	Deferred tax credit recognised directly in equity	---	318
7 December 2015	Share consolidation	(1,633,459)	---
31 December 2015	Closing balance	408,405	(20,431)

Note 8. Dividends

The Board has not declared an interim ordinary dividend for the half-year ended 31 December 2015, nor for the half-year ended 31 December 2014. The Dividend Reinvestment Plan (DRP) remains suspended.

Note 9. Earnings per share

The 2014 basic and diluted earnings per share were restated to reflect the impact of share consolidation in the half-year ended 31 December 2015 (refer note 7) in order to achieve a comparable calculation to the 2015 basic and diluted earnings per share.

(a) Basic earnings per share

	Half-year 2015 Cents	Half-year 2014 Cents
From continuing operations attributable to the ordinary equity holders of the Company	(0.8)	7.7
From discontinued operations	---	5.3
Total basic earnings per share attributable to the ordinary equity holders of the Company	(0.8)	13.0

(b) Diluted earnings per share

	Half-year 2015 Cents	Half-year 2014 Cents
From continuing operations attributable to the ordinary equity holders of the Company	(0.8)	7.6
From discontinued operations	---	5.3
Total diluted earnings per share attributable to the ordinary equity holders of the Company	(0.8)	12.9

Note 9. Earnings per share (continued)

(c) Reconciliations of earnings used in calculating earnings per share

	Half-year 2015 $'000	Half-year 2014 $'000
Basic earnings per share		
(Loss)/profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share:		
From continuing operations	(1,587)	15,196
From discontinued operations	---	10,516
	(1,587)	25,712
Diluted earnings per share		
(Loss)/profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share:		
From continuing operations	(1,587)	15,196
From discontinued operations	---	10,516
	(1,587)	25,712

(d) Weighted average number of shares used as the denominator

	Half-year 2015 Number	Half-year 2014 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	197,640,037	197,497,044
Adjustments for calculating diluted earnings per share:		
Performance shares and conditional rights	---	497,096
Options	---	1,147,422
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	197,640,037	199,141,562

Note 10. Contingencies

Class Action

As announced on 26 March 2015, the Company is defending a representative proceeding (shareholder class action) commenced in the Federal Court of Australia. The applicants comprise persons who are said to have acquired ordinary shares or American Depository Receipts in the Company between 18 February 2011 and 19 December 2011. The applicants are seeking declarations and unquantified damages. The Company wholly rejects and is vigorously defending the claim, which focuses on market disclosures that occurred in 2011.

There have 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

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.

Other than the item mentioned 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 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 2015 and 30 June 2015.

At 31 December 2015	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Financial assets				
Forward exchange contracts – cash flow hedges	---	2,309	---	2,309
Total financial assets	---	2,309	---	2,309
Financial Liabilities				
Forward exchange contracts – cash flow hedges	---	728	---	728
Total financial liabilities	---	728	---	728

At 30 June 2015	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Financial assets				
Forward exchange contracts – cash flow hedges	---	3,879	---	3,879
Total financial assets	---	3,879	---	3,879
Financial Liabilities				
Forward exchange contracts – cash flow hedges	---	441	---	441
Contingent consideration	---	---	10,827	10,827
Total financial liabilities	---	441	10,827	11,268

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 did not hold any of these financial instruments at 31 December 2015 or 30 June 2015.

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.

Note 12. Financial risk management (continued)

(a) Fair value measurements (continued)

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.

(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 2015 and year ended 30 June 2015:

Changes in contingent consideration	**December 2015 $'000**	June 2015 $'000
Balance at beginning of period	10,827	15,709
Amounts recognised in other income	(2,413)	(7,748)
Exchange losses	634	2,866
Transfer from contingent liability to trade and other payables	(9,048)	---
Balance at end of period	---	10,827

(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 2015 annual 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 an indication that the relevant assets may be impaired. At 31 December 2015 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 2015 $'000	30 June 2015 $'000	**31 December 2015 $'000**	30 June 2015 $'000
Sector 9	---	---	9,451	8,930
Kustom	---	---	8,785	8,785
	---	---	18,236	17,715

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 2015.

Note 13. Impairment of intangible assets (continued)

(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
Kustom	8	---	(0.9)	(1.3)

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

(c) Key assumptions used for value-in-use calculations

The recoverable amounts of the CGU's in the table below have been determined using value-in-use (VIU) calculations.

The VIU calculations have been based on a three year business plan projecting profitability and cash flows prepared by management and approved by the Board. A terminal value is calculated for subsequent years referencing the terminal growth rates (see table below).

The rates used in discounting the projected cash flows are pre-tax rates which reflect the specific risks relating to the relevant region of operation or the brand.

The terminal growth rates used reflect the maturity and establishment of the brand or region and do not exceed the long-term average growth rates for the markets to which these assets are dedicated.

The following key assumptions shown in the table below have been used in the calculations.

	Average EBITDA Growth Rate FY16–FY19* %	Headroom** $'m	Discount rate 2015 %	Impact on headroom of +0.5% change in discount rate $'m	Terminal growth rate %	Impact on headroom of -0.5% change in terminal growth rate $'m	Impact on headroom of -10% change in EBITDA $'m
Sector 9	92.4%	---	16.3	(3.3)	2.5	(3.2)	(5.1)

* Growth rate is impacted by relatively small absolute change from a low initial EBITDA amount and is consistent with historical performance of Sector 9.
****** Headroom is the difference between the carrying value and the VIU calculation for the CGU.

Note 14. 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 2015 $	Half-year 2014 $
Expense reimbursement		
Oaktree Capital Management, L.P	8,568	97,941
Centerbridge Partners, L.P	65,627	148,271
Non-Executive Director remuneration		
Oaktree Capital Management, L.P	18,521	47,282
Centerbridge Partners, L.P	---	47,282

Jason Mozingo has requested to waive his board fees effective for the 2015-16 financial year, 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

	31 December 2015 $	31 December 2014 $
Expense reimbursement payable/(receivable)		
Oaktree Capital Management, L.P	160	99,948
Centerbridge Partners, L.P	(20,294)	162,046

(c) Loans from related parties

	Half-year 2015 $	Half-year 2014 $
Oaktree Capital Management, L.P		
Balance at beginning of period	132,656,250	108,152,866
Interest charged	8,570,177	6,971,308
Interest paid	(8,668,059)	(7,182,481)
Exchange differences	7,830,222	17,125,825
Balance at end of period	140,388,590	125,067,518

	Half-year 2015 $	Half-year 2014 $
Centerbridge Partners, L.P		
Balance at beginning of period	132,656,250	108,152,866
Interest charged	8,570,177	6,971,308
Interest paid	(8,668,059)	(7,182,481)
Exchange differences	7,830,222	17,125,825
Balance at end of period	140,388,590	125,067,518

(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.

In the Directors' opinion:

(a) the financial statements and notes set out on pages 10 to 31 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 2015 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
Chair

Gold Coast
26 February 2016

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 2015, 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 2015 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*.

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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 2015 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.*

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K. Stubbins

Kristin Stubbins
Partner

Sydney
26 February 2016