Billabong
International
Limited

ABN 17 084 923 946

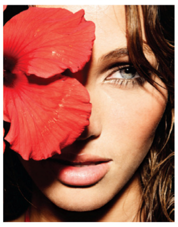
ASX ANNOUNCEMENT

ANNUAL GENERAL MEETING AND ANNUAL REPORTS

GOLD COAST, 24 September 2010: The attached following documents will be despatched to shareholders today:

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

MARIA MANNING
COMPANY SECRETARY

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24 September 2010

Dear Shareholder,

Please accept this letter as a formal invitation to attend the 2010 Annual General Meeting of Billabong International Limited.

The meeting will commence at 10.00am on Tuesday, 26 October 2010 and will be held at Jupiters, Surfers Paradise Rooms I & II, Broadbeach Island, Broadbeach, Queensland. This is the same location as the 2009 Annual General Meeting.

Enclosed with this invitation is a Notice of Meeting, Explanatory Memorandum and Proxy Form. These documents, together with Billabong International Limited's 2009-10 Full Financial Report and 2009-10 Shareholder Review, are available on the website www.billabongbiz.com. Only those shareholders who have elected to receive a Full Financial Report or Shareholder Review will receive a copy by post.

If you are attending the meeting, please bring this letter with you to assist us in the efficient processing of your registration. If you are unable to attend, you may appoint a proxy to vote for you at the meeting by completing the attached Proxy Form. If you intend to appoint a proxy, please return the completed proxy form in accordance with the directions on the form by 7.00pm (Sydney time) on Sunday, 24 October 2010.

Your Directors look forward to seeing you at this meeting.

Yours sincerely

TED KUNKEL

PLEASE BRING THIS LETTER TO THE ANNUAL GENERAL MEETING FOR REGISTRATION

AGM REGISTRATION

The 2010 Annual General Meeting of Billabong International Limited is to be held on Tuesday, 26 October 2010 at 10.00am at Jupiters, Surfers Paradise Rooms I & II, Broadbeach Island, Broadbeach, with registration commencing at 9.00am.

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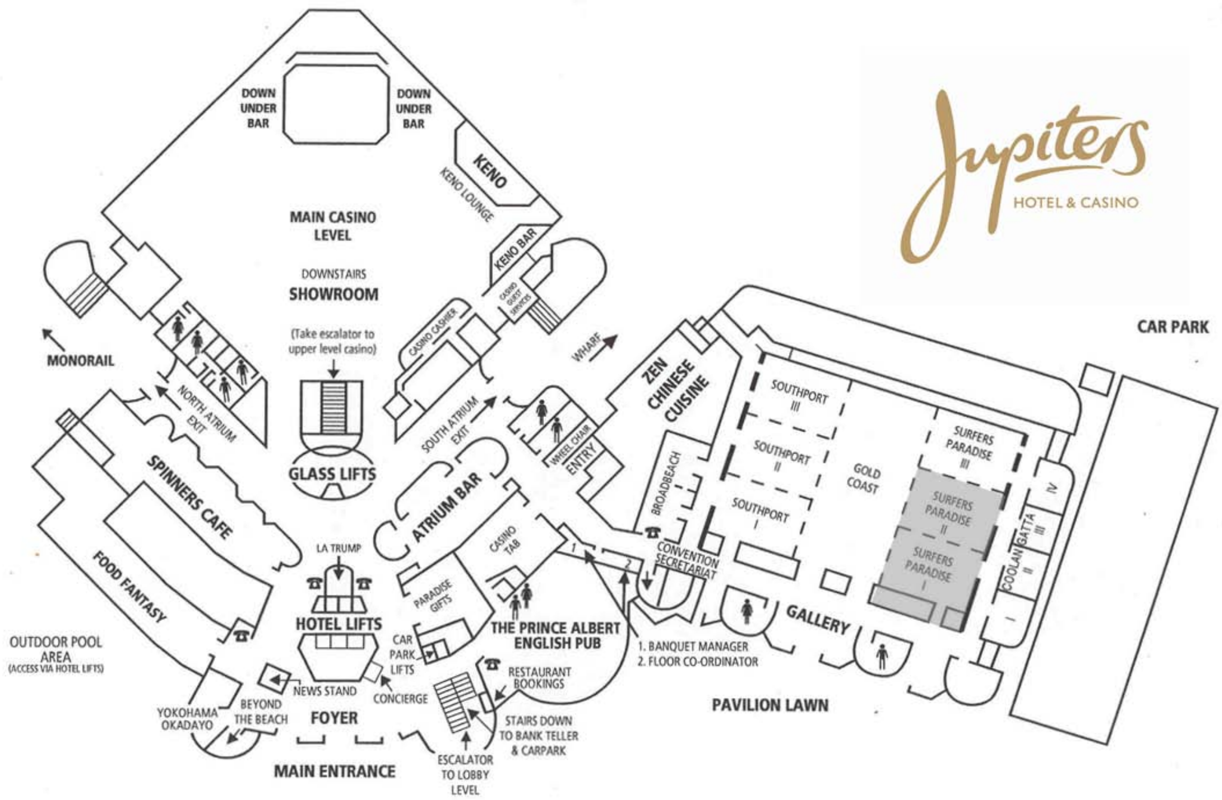
BILLABONG 2010 ANNUAL GENERAL MEETING

The Billabong International Limited 2010 Annual General Meeting will be held at
Jupiters, Surfers Paradise Rooms I & II, Broadbeach Island, Broadbeach, Qld
Tuesday, 26 October 2010 at 10.00am



Parking is available on site at Jupiters

Billabong International Limited
ABN 17 084 923 946

NOTICE OF ANNUAL GENERAL MEETING AND EXPLANATORY MEMORANDUM

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of shareholders of Billabong International Limited will be held at Jupiters, Surfers Paradise Rooms I & II, Broadbeach Island, Broadbeach, Queensland at 10.00 a.m. on Tuesday, 26 October 2010.

BUSINESS

Financial Report and Directors' and Audit Reports

To receive and consider the Financial Report of the Company for the year ended 30 June 2010 and the related Directors' Report and Audit Report.

Re-election of Directors

1. Mr. Ted Kunkel retires by rotation in accordance with Articles 6.3 (b) and (c) of the Company's Constitution and, being eligible, offers himself for re-election.

2. Mr. Allan McDonald retires by rotation in accordance with Articles 6.3 (b) and (c) of the Company's Constitution and, being eligible, offers himself for re-election.

Remuneration Report

3. That the Remuneration Report for the year ended 30 June 2010 be adopted. *(Note: the vote on this resolution is advisory only and does not bind the Directors or the Company).*

Approval of Termination Benefits Provided under the Billabong Executive Performance Share Plan

4. That approval be given for the purposes of sections 200B and 200E of the *Corporations Act 2001 (Cth)* for the giving of benefits under the Billabong Executive Performance Share Plan to any current or future personnel who hold a managerial or executive office in the Company or a related body corporate in connection with that person ceasing to hold a managerial or executive office in the Company or a related body corporate, on the terms set out in the Explanatory Memorandum accompanying this Notice of Meeting.

Awards to Executive Directors under the Executive Performance Share Plan

5. That the award of 118,735 fully paid ordinary shares, for no consideration, to Mr. Derek O'Neill pursuant to the Billabong International Limited Executive Performance Share Plan for the financial year ending 30 June 2011 be approved for the purposes of ASX Listing Rule 10.14.

6. That the award of 103,168 fully paid ordinary shares, for no consideration, to Mr. Paul Naude pursuant to the Billabong International Limited Executive Performance Share Plan for the financial year ending 30 June 2011 be approved for the purposes of ASX Listing Rule 10.14.

Increase in Aggregate Maximum Amount of Non-Executive Directors' Remuneration

7. That the aggregate maximum amount of remuneration to be paid by the Company to its Non-Executive Directors each year be increased by $300,000 from $1,200,000 to $1,500,000 and such increase be approved for the purpose of ASX Listing Rule 10.17 and all other purposes.

Amendment to the Constitution

8. That the following resolution be passed as a special resolution of the Company:

   That the Constitution of the Company be amended as set out in the Explanatory Memorandum accompanying this Notice of Meeting with effect from the close of the Annual General Meeting.

By Order of the Board
Maria Manning
Company Secretary

Billabong International Limited
ABN 17 084 923 946

Voting Exclusion Statement

The Company will disregard any votes cast by any shareholders who are also managerial or executive officers of the Company or its related bodies corporate and any of their associates in relation to Resolution 4.

In accordance with the ASX Listing Rules, the Company will disregard any votes cast by any Director of the entity (except those Directors who are ineligible to participate in any employee incentive scheme in relation to the entity) and any of their associates in relation to Resolutions 5 and 6.

In accordance with the ASX Listing Rules, the Company will disregard any votes cast by any Director of the Company or an associate of any Director in relation to Resolution 7.

However, in each case the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form or it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Proxies

Shareholders are notified that:

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

If you are unable to attend and vote at the meeting and you wish to appoint a person who is attending as your proxy, please complete the enclosed form of proxy. This form must be received by the Company or the Company's share registry, Computershare Investor Services Pty Limited, by 10.00 a.m. (Queensland time) on Sunday, 24 October 2010.

The completed form of proxy may be:

- Mailed to the Company at PO Box 283, Burleigh Heads, Queensland, 4220;
  Faxed to the Company at +61 7 5589 9654; or
  E-mailed to secretary@billabong.com.au; or
- Mailed to the Company's share registry, Computershare Investor Services Pty Limited, at GPO Box 242, Melbourne, Victoria, 3001, Australia; or
  Faxed to Computershare Investor Services Pty Limited on 1800 783 447 or
  +61 3 9473 2555; or
- Submitted online to the Company's share registry by visiting the website, www.investorvote.com.au. You will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) and Control Number as shown on your proxy form. You will be taken to have signed the proxy form if you lodge it in accordance with the instructions on the website; or
- www.intermediaryonline.com (for Intermediary Online Subscribers only (Custodians)).

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

Voting

The time for the purposes of determining voting entitlements pursuant to regulation 7.11.37 of the Corporations Regulations will be 7.00 p.m. (Queensland time) on Sunday, 24 October 2010.

Billabong International Limited
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EXPLANATORY MEMORANDUM

Financial Report and Directors' and Audit Reports

As required by section 317 of the *Corporations Act 2001 (Cth)*, the Financial Statements for the financial year ended 30 June 2010 together with the statement and report by the Directors and the report by the auditor will be laid before the meeting.

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

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

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

Shareholders can access a copy of the 2009/10 Full Financial Report on Billabong's website at www.billabongbiz.com.

Resolutions 1 and 2 – Re-election of Directors

Mr. Ted Kunkel retires by rotation in accordance with Article 6.3 of the Company's Constitution. Mr. Kunkel has been a Non-Executive Director of the Company since 19 February 2001. Being eligible, Mr. Kunkel offers himself for re-election.

Mr. Kunkel has held the position of Chairman of the Board of Directors since 2005.

He is currently Chairman of the Company's Nominations Committee and was previously president and chief executive officer of Foster's Group Limited and associated companies. He has an extensive background of public company experience and international brand management.

Mr. Allan McDonald retires by rotation in accordance with Article 6.3 of the Company's Constitution. Mr. McDonald has been a Non-Executive Director of the Company since 4 July 2000. Being eligible, Mr. McDonald offers himself for re-election.

Mr. McDonald is currently the chairman of Ross Human Directions Limited, Multiplex Property Trust, Multiplex SITES Trust, Astro Japan Property Group, Multiplex Acumen Property Fund, Multiplex European Property Fund and Multiplex Prime Property Fund. Mr. McDonald was formerly a director of Multiplex Limited.

Mr. McDonald holds the position of Chairman of the Company's Audit Committee and is a member of the Nominations and Human Resource & Remuneration Committees.

Board Recommendation
The Board (in each case, in the absence of the relevant Director) unanimously recommends that shareholders vote in favour of the re-election of Messrs. Kunkel and McDonald. The Chairman of the Meeting intends to vote undirected proxies in favour of each of Resolutions 1 and 2.

Resolution 3 – Remuneration Report

Section 250R of the *Corporations Act 2001 (Cth)* requires that the Company's shareholders vote on whether or not the Remuneration Report should be adopted. This vote is ***advisory only*** and the outcome will not be binding on the Directors or the Company.

The Remuneration Report is set out on pages 12 to 27 of the Directors' Report in the Company's 2009/10 Full Financial Report. The report:

- explains the Company's remuneration reward framework for its executives and key management team;
- discusses how the remuneration reward framework aligns reward with achievement of strategic and financial objectives and creation of value for shareholders;
- sets out remuneration details for each Director and for the Company's executives and key management team;
- provides details on all equity instruments provided as remuneration to each Director of the Company and its senior managers; and
- details major provisions of service agreements between the Company and the executives and key management team.

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

Board Recommendation
The Board unanimously recommends that shareholders vote in favour of Resolution 3.
The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 3.

Resolution 4 – Approval of Termination Benefits Provided under the Billabong Executive Performance Share Plan

Why is shareholder approval being sought?

The *Corporations Act 2001 (Cth)* (Act) restricts the benefits which can be given to certain individuals (those who hold a managerial or executive office, as defined in the Act) on cessation of their employment with the Company and its related bodies corporate. Under section 200B of the Act, a company may only give a person a benefit in connection with their ceasing to hold a managerial or executive office in the Company or a related body corporate if it is approved by shareholders or an exemption applies.

The provisions of the Act relating to termination benefits were amended in 2009 to significantly reduce the maximum termination benefits that can be given without prior shareholder approval and to expand the scope of the provisions. The new, lower terminations benefits cap applies to all Directors (including executive Directors of the Company and its subsidiaries). Since November 2009, the cap also applies to all key management personnel (KMP) of the Company (that is, to all persons whose remuneration is required to be disclosed in the Billabong Remuneration Report), including those who are not Directors.

Under the old termination benefits laws, the Board had greater scope to exercise its discretion under the Executive Performance Share Plan (EPSP) in favour of executive Directors and other KMP who were terminated without fault on their part, for instance in the case of death, total or permanent disablement, genuine retirement or redundancy. It was the Board's practice in these cases to consider whether to vest a pro rata portion of the unvested performance shares of such "good leavers." The Board may now be prevented by the new termination benefits cap from exercising its discretion in these circumstances, unless shareholder approval is obtained.

What is the Company seeking approval for?

Shareholder approval is being sought for the purposes of sections 200B and 200E of the Act to any termination benefits that may be provided to a participant in the EPSP under the terms of the EPSP, in addition to any other termination benefits that may be provided to the person without the need for shareholder approval under the Act.

Senior executive long term incentive (LTI) awards are currently delivered through the EPSP. It is also expected that for senior executives other than Mr. O'Neill and Mr. Naude, a portion of future earned short term incentive (STI) awards that would otherwise be paid in cash will instead be awarded as equity under the EPSP and will not vest unless the executive remains employed for up to a further 2 years (deferred STI). If shareholder approval is obtained, it will give the Board the flexibility to vest the unvested LTIs and/or the unvested deferred STI of senior executives who cease employment in certain "good leaver" scenarios.

Approval is being sought in respect of any current or future personnel, including Mr. O'Neill and Mr. Naude, who hold a managerial or executive office in the Company or a related body corporate at the time of their termination or at any time in the three years prior to their termination, and who hold performance shares under the EPSP at the time of their cessation but only if the Board discretion is exercised or performance shares are allocated during the period commencing on the date of the 2010 AGM and ending at the close of business on the date of the 2013 AGM (whether or not any restrictions or conditions on those shares have ceased to apply during that timeframe). That is, Resolution 4 is limited so that it only applies to EPSP participants who from time to time hold a managerial or executive office (as defined in the Act) and who at the time of their termination hold unvested LTIs and/or unvested deferred STI granted under the EPSP or in respect of whom the Board exercises certain discretions under the EPSP rules in that period.

Non-Executive Directors are not entitled to participate in the Company's LTI or STI arrangements and so this approval will not apply to them.

If shareholder approval is obtained, then if the Board exercises its discretion to vest a pro rata portion of an affected person's unvested LTIs and/or unvested deferred STI, the value of the benefit will be disregarded when calculating the relevant individual's cap for the purposes of subsection 200F(2)(b) or subsection 200G(1)(c) of the Act.

The Billabong Executive Performance Share Plan

As described in the Explanatory Memorandum to Resolutions 5 and 6 below, the Company delivers its long term incentives through the EPSP. LTIs granted under the EPSP will vest if specific performance conditions are satisfied. Any deferred STI held under the EPSP will vest provided the executive remains in employment for the entire deferral period.

The rules of the EPSP contain provisions setting out the treatment of unvested performance shares following cessation of employment. While the default position is that unvested performance shares will lapse on cessation, the rules give the Board a discretion to determine a different treatment where employment is terminated in circumstances that do not involve fraud, defalcation or gross misconduct, including a discretion to vest a pro rata portion of an executive's unvested performance shares.

The exercise of this discretion will constitute a benefit for the purposes of the termination benefits provisions of the Act. Accordingly, approval is being sought to provide the Board with the flexibility to exercise its discretion to vest a pro rata portion of an executive's unvested LTIs and/or unvested deferred STI.

The Board is not obliged, and does not intend to exercise this discretion in all or even most cases. The discretion will only ever be exercised when the employee is terminated without fault on their part, for instance in the case death, total or permanent disablement, genuine retirement or redundancy or where the Board determines that in all the circumstances it should exercise its discretion, such as an agreed cessation for an employee whose duties and responsibilities have changed substantially as a result of a restructure, and the Board reserves the right to vest less than a pro rata portion, not to exercise its discretion at all or to decide that vesting will occur in the ordinary course, subject to the satisfaction of the conditions imposed at grant. The Board will remain accountable to shareholders for the exercise of this discretion because any termination benefits paid to executive Directors and other KMPs will be disclosed in the Company's Remuneration Report.

In determining whether to exercise its discretion in a particular case, the Board will take into account all relevant circumstances. Particular factors which the Board may consider relevant in an individual case may include the executive's (and Company's) performance against applicable performance hurdles, as well as the executive's individual performance and the overall contribution that they have made during their time with the Company. In determining the portion of a grant which will vest, the Board may have regard to such factors as it considers relevant, which, for example, may include the period from the date of grant to the date of cessation, and/or the performance against any applicable performance conditions.

It can be reasonably anticipated that aspects of the EPSP may be amended from time to time in line with market practice and changing governance standards and, where relevant, these changes will be reported in the Company's Remuneration Report. However, it is intended that this approval will remain valid for Board discretions exercised under the EPSP and for allocations made between the 2010 AGM and the 2013 AGM provided that at the time the allocation is made the EPSP contains a discretion for the Board to vest a pro rata portion of a participant's unvested LTIs and/or deferred STI.

Value of the benefits

As noted above, the potential "termination benefit" that may be given to an affected executive under the EPSP is pro rata vesting of unvested LTIs and/or deferred STI, or, if the Board decides that vesting will occur in the ordinary course, the value of keeping the equity "on foot" until their originally imposed test date, in the circumstances described above.

The value of these potential "termination benefits" cannot be ascertained in advance. This is because various matters, events and circumstances will or are likely to affect the calculation of the value. Specifically, the value of a particular benefit under the EPSP will depend on factors such as the Company's share price at the time of cessation and the number of unvested performance shares that are held for an executive under the EPSP at the time of their termination.

The following additional factors may also affect the value of the benefit:

- the circumstances in which termination occurs, including the length of service of the employee and the portion of any relevant performance periods that have expired at the date of termination; and
- the executive's total fixed remuneration at the time LTI grants are made under the EPSP and when STI key performance indicators are determined.

In the case of deferred STI, the value of the benefit will also be affected by the amount of STI that the Board determines to pay from year to year and the proportion of that STI that the Board decides to defer into equity.

Section 200E(2A) of the Act prevents a retiring managerial or executive officer from voting on a resolution to approve the giving of the benefit. Accordingly, shareholders who are also managerial or executive officers of the Company or its related bodies corporate may not vote on this resolution, other than as a proxy appointed in writing where it is specified how the proxy is to vote on the resolution, and the person appointing the proxy is not a retiree subject to this restriction.

Board Recommendation

The Board (with Messrs. O'Neill and Naude abstaining) recommend that shareholders vote in favour of the resolution. The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 4.

Resolutions 5 and 6 – Awards to Executive Directors under the Executive Performance Share Plan (EPSP)

In accordance with Listing Rule 10.14, the Company is seeking the approval of shareholders for the proposed grant of performance shares under the EPSP to the Chief Executive Officer, Mr. Derek O'Neill, and the General Manager – Billabong North America, Mr. Paul Naude, on the terms and conditions set out below.

Background

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

The EPSP is designed to provide an incentive for executives to achieve above average performance over the medium term in the Company's businesses. Under the EPSP, Directors of the Company are able to make an award of fully paid ordinary shares in the Company to selected Billabong executives.

Grant of performance shares

The performance shares remain in the possession of the trustee of the EPSP pursuant to the provisions of the Billabong Executive Performance Share Plan Trust Deeds and will not vest in the executive until the performance criteria (specified by the Board at the time of the award of the performance shares) have been achieved. Participants are not required to pay any amount on grant of the performance shares, nor on vesting. Upon grant of the performance shares, participants are entitled to any rights to dividends or rights to acquire shares, options or other securities granted or issued by the Company or by any other company to shareholders of the Company. Unless and until the performance shares vest on satisfaction of the performance hurdles, the performance shares will be subject to certain forfeiture conditions. Unless otherwise determined by the Board, performance shares will be forfeited where:

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

Calculation of number of performance shares to be granted

The number of performance shares to be granted to Mr. Derek O'Neill will be 118,735.

The number of performance shares to be granted to Mr. Paul Naude will be 103,168.

Performance hurdles

The performance criteria for these awards of performance shares are based on Billabong's earnings per share (EPS) growth for the 3 years ending 30 June 2011 to 30 June 2013 (performance period) as follows:

a) if annual compound EPS growth is less than 6%, no performance shares will vest;

b) if annual compound EPS growth is equal to 6%, 50% of the shares awarded will vest. If annual compound EPS growth is greater than 6% but less than 10%, the proportion of performance shares vesting will be increased on a pro-rata basis between 50% and 100%;

c) if annual compound EPS growth is equal to or greater than 10%, 100% of the shares awarded will vest.

The EPS growth targets will be measured against the financial year ended 30 June 2010 (the base year).

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

Additional information

It is intended that the relevant performance shares will be issued within three (3) months of the AGM, and no later than twelve (12) months after the AGM.

Mr. Derek O'Neill and Mr. Paul Naude are the only Directors entitled to participate in the EPSP.

At the 2009 AGM, shareholders approved a grant of 88,170 performance shares to Mr. O'Neill and a grant of 76,262 performance shares to Mr. Naude. Those performance shares were granted on 30 November 2009 at no cost to either executive Director, in accordance with the terms approved by shareholders.

If shareholder approval is attained, details of any fully paid ordinary shares issued under the EPSP will be published in the Company's Full Financial Report for the year ending 30 June 2011.

The Company will bear the full cost of the grant of performance shares. There is no loan scheme or other repayment required in respect of the grant of the performance shares as no payment is required to be made by either Mr. Derek O'Neill or Mr. Paul Naude.

Board Recommendation

The Board (with Messrs. O'Neill and Naude abstaining) recommend that shareholders vote in favour of the resolution. The Chairman of the Meeting intends to vote undirected proxies in favour of each of Resolutions 5 and 6.

In accordance with the ASX Listing Rules, the Company will disregard any votes cast by any Director of the entity (except those Directors who are ineligible to participate in any employee incentive scheme in relation to the entity) and any of their associates in relation to Resolutions 5 and 6.

However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the direction of the proxy form or it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 7 – Increase in Aggregate Maximum Amount of Non-Executive Directors' Remuneration

In accordance with the ASX Listing Rules and Billabong's Constitution, a proposed increase in the aggregate maximum amount of Non-Executive Directors' remuneration requires shareholder approval.

Billabong International Limited
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What is the proposed increase in the aggregate maximum amount of Non-Executive Directors' Remuneration?

The aggregate maximum remuneration paid to Non-Executive Directors was last approved by shareholders at the Company's Annual General Meeting on 21 October 2005 and was set at $1,200,000. Shareholders are being asked to approve a 25% increase to $1,500,000 (inclusive of statutory superannuation contributions).

Why is an increase being proposed?

To provide flexibility to increase the number of Non-Executive Directors on the Board.

The increase in Non-Executive Directors' fees will provide the Board with the strategic flexibility to make an addition to the Board.

To assist orderly succession planning

Attracting the right board member and providing effective transition arrangements are fundamental to a high performing Board. To facilitate an orderly transfer of responsibilities, a new director may be appointed prior to the retirement of an existing director, resulting in a short-term increase in the size of the Board and the total fees payable to the directors. The proposed increase in Non-Executive Directors' fees would enable the Board to facilitate succession planning.

Consistency with the market

The increase will also provide the Company flexibility to periodically revise fee levels based on market rates to take into account the increasing workload and responsibility of Non-Executive Directors.

The Board has reviewed fee levels in the market and obtained advice from independent remuneration consultants. The Board believes that the proposed increase in the level of fees is reasonable having regard to those market levels.

The increase would be effective from 1 November 2010 with the annual aggregate amount to be divided among the Directors as they agree.

Board Recommendation

As the Non-Executive Directors have a personal interest in the proposed resolution, the Directors make no recommendation as to how shareholders should vote on this resolution.

In accordance with the ASX Listing Rules, the Company will disregard any votes cast by any Director of the Company or an associate of any Director in relation to Resolution 7.

However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the direction of the proxy form or it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 8 – Amendment to the Constitution

Various provisions of the Constitution are proposed to be amended to reflect changes (including recent changes) in applicable laws since the Constitution was adopted and to generally update the Constitution and align the provisions with the current requirements and terminology of the ASX Listing Rules and the *Corporations Act 2001 (Cth).*

All of the amendments are to be voted on in one resolution such that either all of the amendments will be approved or none of the amendments will be approved. This resolution is a special resolution.

The specific amendments proposed to be made to the Constitution are as follows:

A. In clause 1 of Schedule 1 (Definitions and Interpretation), the words "ASTC Operating Rules" be replaced with the words "ASTC Settlement Rules" and all references to "ASTC Operating Rules" throughout the Constitution be changed to "ASTC Settlement Rules"

B. In clause 1 of Schedule 1 (Definitions and Interpretation), the definition of "Member" be deleted and replaced with the following:

"Member" means:

"(a) in respect of a meeting of holders of Shares or a meeting of holders of a class of Shares, a person whose name is entered in the Register as the holder of a Share or a Share of that class (as the case may be) at the time specified in the notice of that meeting (or if no time is specified, at the time appointed for that meeting to commence); and

(b) otherwise, a person whose name is entered in the Register as the holder of a Share."

C. In Schedule 1 (Definitions and Interpretation), a new clause 5 headed "Enforcement" be added as follows:

"5. Enforcement

Each Member submits to the non-exclusive jurisdiction of the courts of Queensland, the Federal Court of Australia and the courts competent to determine appeals from those courts with respect to any proceedings that may be brought at any time relating to this Constitution."

D. A new sub-clause (c) be added to Article 2.2 (Variation of classes and class rights) as follows:

"(c) The issue of any new Shares ranking equally, or any conversion of existing securities to Shares ranking equally, with existing Shares is not a variation of the rights conferred on the holders of the existing Shares, unless otherwise provided by the terms of issue of the existing Shares or required by the Applicable Law."

E. Article 2.6 (Registered holder is absolute owner) be amended by renumbering the existing paragraph as Article 2.6(a) and adding the following at the end:

". . ., regardless of whether the Company has notice of the interest or right."

F. New sub-clauses (b) and (c) be added to Article 2.6 (Registered holder is absolute owner) as follows:

"(b) The Company is not bound to register more than 3 persons as the registered holder of a Share.

(c) If the Company registers 2 or more persons as registered holders of a Share, those persons are taken to hold that share as joint tenants."

G. Article 4.1 (Electronic Transfer Systems) be amended by renumbering the existing paragraph as Article 4.1(a), amending the existing paragraph by deleting the word "securities" at the end of the Article and replacing it with "financial products" and adding the following paragraph as a new Article 4.1(b):

"(b) The Company must comply with the obligations imposed on it by the ASTC Settlement Rules in relation to a transfer of Shares."

H. Article 4.5(b) (Refusal to register transfers) be deleted and replaced with the following:

"(b) The Company may refuse to register a transfer of Shares where the Applicable Law permits the Company to do so and the Directors so resolve. If permitted by the Applicable Law and the Directors so resolve, the Company may refuse to register an instrument of transfer of Shares where:
(i) the transfer is not in registrable form;
(ii) the Company has a lien on any of the Shares transferred;
(iii) the registration of the transfer may breach an Australian law or a court order;
(iv) the registration of the transfer will create a new holding of Shares which at the time the transfer is lodged is less than a marketable parcel;
(v) the transfer does not comply with the terms of an employee incentive scheme; or
(vi) the Company is otherwise permitted or required to do so pursuant to the terms of issue of the Shares."

I. Article 5.3(g) (How to call meetings of Members) be amended by adding the words "or a proxy form" after the words "notice of the meeting" in each place they appear in that Article.

J. Article 5.8(b) (General conduct of meetings) be amended by deleting the word "or" at the end of clause 5.8(b)(v), and by adding the following sub-clauses after sub-clause 5.8(b)(vi):

"(b)(vii) for any item of business at that meeting or for any part of that meeting, vacate the chair in favour of another person nominated by him or her; or

(b)(viii) require a person acting as a proxy, attorney or representative at that meeting to establish to the chairperson's satisfaction that the person is the person who is duly appointed to act. If the person fails to satisfy this requirement, the chairperson may exclude the person from attending or voting at the meeting."

K. Article 6.2 (Appointment of Directors) be amended by adding the following sub-clause after sub-clause 6.2(f):

"(g) An act at any meeting of Directors or a committee of Directors or an act of any person acting as a Director is not invalidated by:
(i) a defect in the appointment or continuance in office of a person as a Director, a member of the committee or of the person so acting; or
(ii) a person so appointed being disqualified or not being entitled to vote,
if that circumstance was not known by the board of Directors, committee or person (as the case may be) when the act was done."

L. Article 6.3(a) be amended by adding the following sentence at the end of the Article:
"If there is more than one managing director, only one of them, nominated by the Directors, is entitled not to be subject to Articles 6.3(b), 6.3(c), 6.3(d), 6.3(i) and 6.3(j)."

M. Article 6.5(a) (Remuneration of Directors) be deleted and replaced with the following:

"(a) Subject to Article 6.5(b), the Company may pay or provide to the Non-Executive Directors fees in an amount or value which does not in any financial year exceed

Billabong International Limited
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in aggregate the amount last determined by the Company in general meeting, or until so determined, as the Directors resolve. This Article does not apply to any payments made pursuant to Articles 6.5(f), 6.5(g), 6.5(h), 6.5(i) or 7.3."

N. Article 6.5(d) (Remuneration of Directors) be amended by adding the following words at the end of that Article:

". . ., except that fees in the form of a non-cash benefit are taken to accrue at the time the benefit is provided to the Director, subject to the terms on which the benefit is provided."

O. Articles 6.6(c), (d), (e) and (f) (Interests of Directors) be renumbered as Articles 6.6(f), (g), (h) and (i) respectively, and references in these clauses to "Article 6.6(c)" are changed to "Article 6.6(f)", and Articles 6.6(a) and (b) be deleted and replaced with the following:

"(a) A Director is not disqualified by reason only of being a Director (or the fiduciary obligations arising from that office) from:
   (i) holding an office (except auditor) or place of profit or employment in the Company or a related body corporate of the Company;
   (ii) holding an office or place of profit or employment in any other company, body corporate, trust or entity promoted by the Company or in which it has an interest;
   (iii) being a member, creditor or otherwise be interested in any body corporate (including the Company), partnership or entity, except auditor of the Company;
   (iv) entering into any agreement or arrangement with the Company; or
   (v) acting in a professional capacity (or being a member of a firm which acts in a professional capacity) for the Company (except as auditor) or any related body corporate of the Company or other body corporate in which the Company is interested,

   and may retain the benefits of doing so if the Director discloses in accordance with the Corporations Act the interest giving rise to those benefits.

(b) Each Director must comply with the Applicable Law in relation to the disclosure of the Director's interests.

(c) A Director who has a material personal interest in a matter that is being considered at a meeting of Directors must not be present while the matter is being considered at the meeting nor vote on the matter, except where permitted by the Corporations Act.

(d) If a Director has an interest in a matter, then subject to Article 6.6(c), Article 6.6(e) and this Constitution:
   (i) the Director may be counted in a quorum for a meeting of Directors that considers matters that relate to the interest provided that Director is entitled to vote on at least one of the resolutions to be proposed at that meeting of Directors;
   (ii) the Director may participate in and vote on matters that relate to the interest;
   (iii) the Company may proceed with any transaction that relates to the interest and the Director may participate in the execution of any relevant document by or on behalf of the Company;
   (iv) the Director may retain the benefits pursuant to any transaction that relates to the interest even though the Director has the interest; and
   (v) the Company cannot avoid any transaction that relates to the interest merely because of the existence of the Director's interest.

(e) If an interest of a Director is required to be disclosed pursuant to Article 6.6(b), Article 6.6(d)(iv) applies only if the interest is disclosed before the transaction is entered into."

P. Article 8.1(c) (General powers) be amended by adding the words "to the exclusion of the Company in general meeting" between the words "Company" and "except" and by deleting the words "Corporations Act" and replacing them with the words "law, Corporations Act, Listing Rules".

Q. Article 9.2(b) (Meetings of Directors) be amended by deleting the words "a majority" and replacing them with the word "all".

R. Article 10.1(a) (Who may determine dividends) be deleted and replaced with the following:

"The Directors may pay Dividends that, in their judgment, the financial position of the Company justifies."

S. Article 10.1(b) (Who may determine dividends) be amended by inserting the following words after the word "Law," where it appears in the first line of Article 10.1(b):

". . . this Constitution and the rights or restrictions attached to a class of Shares,"

T. Article 10.7(c) (Capitalisation of profits) be amended by deleting the words "either or both" and replacing them with the words "any or all", by deleting the word "and" at the end of Article 10.7(c)(i), by inserting a semi-colon at the end of Article 10.7(c)(ii) and by adding the following as a new Article 10.7(c)(iii):

"(iii) any other method permitted by law or the Listing Rules."

Billabong International Limited
ABN 17 084 923 946

U. Article 11.1(a) (Notices to Members) be amended by deleting the word "or" at the end of sub-clause 11.1(a)(ii), and by adding the following sub-clauses after Article 11.1(a)(iii):

"(iv) if permitted by the Corporations Act, notifying that Member of the notice's availability by an electronic means nominated by the Member for that purpose; or

(v) any other means permitted by the Corporations Act."

V. Articles 11.3(a) and (b) (Notice to the Company) be deleted and replaced with the following:

"(a) by delivering it or sending it by post to the registered office of the Company;

(b) by delivering it or sending it by post to a place nominated by the Company for that purpose;"

W. Article 11.4 (Time of service) be amended by adding a new sub-clause 11.4(g) as follows:

"(g) A Notice given in accordance with Article 11.1(a)(iv) is taken to be given on the day after the date on which the Member is notified that the Notice is available."

X. Clause 1.1 of Schedule 3 (Effect of death) be amended by adding a new sub-clause 1.1(c as follows:

"1.1(c) Notwithstanding clauses 1.1(a) and 1.1(b), the Company may register or give effect to a transfer of Shares to a transferee who dies before the transfer is registered or given effect to by the Company."

Y. Clause 2.1(c) of Schedule 4 (Existing unmarketable parcels) be deleted and replaced with the following:

"(c) If a takeover bid for the Company is announced after a notice pursuant to clause 2.1(a) is given but before an agreement for sale of the relevant Shares is entered into, the power of the Company under clause 2.1(a) lapses. However, the procedure may be started again after the close of the offers made under the takeover bid, and the Company may (notwithstanding clause 2.1(b)) give a new notice pursuant to clause 2.1(a)."

Z. Clause 3.2(b) of Schedule 4 (Manner of sale) be amended by deleting the word "and" at the end of sub-clause 3.2(b)(iii), and by adding new sub-clauses 3.2(b)(v) and 3.2(b)(vi) as follows:

"(b)(v) effect a transfer of Shares sold pursuant to this Schedule; and

(b)(vi) receive any disclosure document, including a financial services guide, as agent for the applicable Members."

AA. Clause 3.2 of Schedule 4 (Manner of sale) be amended by adding a new sub-clause 3.2(f) as follows:

"(f) Subject to the Listing Rules, the Company may by resolution of the Directors revoke a notice given pursuant to this Schedule at any time prior to the sale of the Shares pursuant to this Schedule."

BB. Clause 2.2(d) of Schedule 5 (Proportional Takeover Bid Approval) be amended by adding the words "Subject to clause 2.2(f) below," at the start of that clause.

CC. Clause 2.2(f) of Schedule 5 (Proportional Takeover Bid Approval) be amended by adding the words "or a later day allowed by the Australian Securities and Investments Commission, then" after the words "before the Deadline,".

The following table sets out brief reasons for each change:

Resolution reference	Article and recommended amendment	Reason for amendment
A.	Definitions in clause 1.1 of Schedule 1 (Definitions and Interpretation) - amendment of definition of "ASTC Operating Rules"	This amendment incorporates the new name of the ASTC Operating Rules which are now known as the "ASTC Settlement Rules".

B.	Definitions in clause 1.1 of Schedule 1 (Definitions and Interpretation) - amendment of the definition of "Member"	This amendment reflects the Corporations Regulations 2001 (Regulations 7.11.37 and 7.11.38) and ASTC Settlement Rules (Rule 5.6.1), which permit the Company (as an ASX listed company) to determine that Shares are taken to be held for the purposes of a meeting of members at a time not more than 48 hours prior to the meeting, and which is either 7pm on the trading day (or 2 trading days) prior to the meeting, or anytime on a non-trading day. Particulars of this determination must be included in the notice of meeting. Rule 6.10.3 of the ASX Listing Rules permits an ASX listed company to remove a shareholder's right to vote if the person became a holder of the shares after the time determined pursuant to the Corporations Regulations as the specified time for deciding who held shares for the purposes of the meeting.
C.	Schedule 1 (Definitions and Interpretation) - a new paragraph 5 (Enforcement) be added	A clause setting out the jurisdiction for enforcement of the Constitution is proposed. The registered office of the Company is situated in Queensland.
D.	Article 2.2 (Variation of Class Rights) - addition of new Article 2.2(c)	This amendment clarifies that an issue of new Shares or conversion of securities will not vary class rights unless otherwise provided.
E. and F.	Article 2.6 (Registered holder) - amendment of Article 2.6(a) and addition of new Articles 2.6(b) and (c)	These amendments increase certainty regarding the Company's rights and obligations relating to the registration of 2 or more persons as shareholders.
G.	Article 4.1 (Electronic Transfer Systems) - amendments to Article 4.1(a) and addition of Article 4.1(b)	This amendment incorporates the distinction in the Corporations Act between "securities" and "financial products". The term "financial product" under the Corporations Act includes a security and therefore has a wider meaning.
H.	Article 4.5(b) (Refusal to register transfers) - Article to be deleted and a new Article included	The amendment specifies particular circumstances in which the Company may refuse to register an instrument of transfer of shares.
I.	Article 5.3 (How to call meetings of Members) - amendments to Article 5.3(g)	The amendment is included to remove the risk that failure to provide a proxy form to a person might be held to invalidate actions at a meeting of Members.
J.	Article 5.8 (General conduct of meetings) - addition of new sub-clauses to Article 5.8(b)	The amendment is included to clarify the scope of powers of the chairperson when conducting a meeting of Members.
K.	Article 6.2 (Appointment of Directors) - addition of new sub-clause as Article 6.2(g)	The amendment is included to reduce the risk that acts of the Directors are invalidated due to unknown defects in appointment or continuance of that person in office as Director.
L.	Article 6.3 (Retirement of Directors and Vacation of office – amendments to Article 6.3(a)	The amendment confirms that if the Company were to appoint more than one managing director, only one of the managing directors would not be subject to the director re-election and rotation provisions. The Directors must decide which of the two managing directors will not be subject to these provisions during the term of their appointment as managing director.
M. and N.	Article 6.5 (Remuneration of Directors) - Article 6.5(a) to be replaced and a new Article 6.5(d) to be included	These amendments reflect the requirements of ASX Listing Rule 10.17 regarding increases to the total amount of Non-Executive Directors' fees that can be paid by the Company.
O.	Article 6.6 (Interests of Directors) - Articles 6.6(a) and (b) to be replaced with new Articles 6.6(a) - (d) and other Articles to be renumbered	These amendments update the Article to incorporate the requirements of the Applicable Laws regarding disclosure of Directors' interests. Subject to exceptions set out in sections 195(2) and (3) of the Corporations Act, section 195 of the Corporations Act requires a director (and their alternate director), who has a material personal interest (that is required to be disclosed under section 191 of the Corporations Act) in a matter being considered at a directors' meeting, not to be present while the matter is considered at the meeting nor vote on the matter.

P.	Article 8.1 (General powers) - amendments to the existing Article 8.1(c)	These amendments reduce the uncertainty of whether a power of the Company is to be exercised by the Directors or the Company in general meeting. It also includes the matters under the ASX Listing Rules which require shareholder approval.
Q.	Article 9.2 (Meetings of Directors) - amendment to Article 9.2(b)	This amendment aligns the Constitution with section 248D of the Corporations Act, which requires the consent of all Directors for the use of technology for a Directors' meeting.
R. and S.	Article 10.1 (Who may determine dividends) - amendments to Articles 10.1(a) and (b)	This amendment updates the dividend provisions in the Constitution to reflect recent changes made to the *Corporations Act 2001 (Cth)* which allow a company to pay a dividend other than out of profits, if certain requirements are met. These requirements include meeting a balance sheet test (rather than a profits test) so that a dividend is only paid if a company's assets are greater than its liabilities immediately before the dividend is declared and such excess is sufficient for the payment of the dividend.
T.	Article 10.7 (Capitalisation of profits) - amendment of Article 10.7(c)	These amendments allow the Directors the flexibility to apply capitalised profits in any other method permitted by law or the Listing Rules.
U.	Article 11.1 (Notices to Members) - Article 11.1(a) to be amended by adding new sub-clauses (iv) and (v)	This amendment allows the Company to give notices by any means permitted by the Corporations Act.
V.	Article 11.3 (Notice to the Company) - Articles 11.3(a) and (b) to be deleted and replaced	This amendment gives the Company flexibility to nominate a place for the purposes of receiving notices.
W.	Article 11.4 (Time of service) - new Article 11.4(g) to be added	This amendment clarifies the time of service for delivery of notices given under the amended Article 11.1(a) by electronic means.
X.	Clause 1.1 of Schedule 2 (Effect of death) - new sub-clause 1.1(c) to be added	This amendment increases certainty about the effectiveness of a transfer in circumstances where a transferee dies prior to registration of a transfer.
Y.	Clause 2.1 of Schedule 4 (Existing unmarketable parcels) - Clause 2.1(c) to be deleted and replaced	This amendment increases certainty around the lapsing of the Company's power to sell unmarketable parcels if a takeover bid is made and the power to issue a new notice after the close of offers under a takeover bid.
Z. and AA.	Clause 3.2 of Schedule 4 (Manner of sale) - new sub-clauses to be added to clause 3.2(b) and a new clause 3.2(f) to be added	This amendment clarifies the scope of the Company's powers in relation to sale or disposal of unmarketable parcels of Shares.
BB. and CC.	Clause 2.2 of Schedule 5 (Proportional Takeover Bid Approval) - amendments to clauses 2.2(d) and (f)	These amendments recognise the right of the Australian Securities and Investments Commission to extend the relevant deadline for the passing of a resolution approving a proportional takeover bid.

Board Recommendation
The Board unanimously recommends that shareholders vote in favour of the amendment to the Constitution. The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 7.

Billabong International Limited

ABN 17 084 923 946

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

Lodge your vote:

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Victoria 3001 Australia

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☑ **Cast your proxy vote** ☑ **Access the annual report** ☑ **Review and update your securityholding**	***Your secure access information is:*** **Control Number: 999999** **SRN/HIN: I9999999999** **PLEASE NOTE:** For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 10am (Queensland time) Sunday 24 October 2010

How to Vote on Items of Business

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

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

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

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

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

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

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

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

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

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

I 9999999999 I ND

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

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

☐ **the Chairman of the Meeting** **OR** ____________________

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

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of Billabong International Limited to be held at Jupiters, Surfers Paradise Rooms I & II, Broadbeach Island, Broadbeach, Queensland at 10.00 a.m. on Tuesday, 26 October 2010 and at any adjournment of that meeting.

Important for Item 7: If the Chairman of the Meeting is your proxy and you have not directed him/her how to vote on Item 7 below, please mark the box in this section. If you do not mark this box and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on Item 7 and your votes will not be counted in computing the required majority if a poll is called on this Item. The Chairman of the Meeting intends to vote undirected proxies in favour of Item 7 of business.

☐ I/We acknowledge that the Chairman of the Meeting may exercise my proxy even if he/she has an interest in the outcome of that Item and that votes cast by him/her, other than as proxy holder, would be disregarded because of that interest.

STEP 2 Items of Business

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

		For	Against	Abstain
1	Re-elect Mr. Ted Kunkel as a Director of the Company	☐	☐	☐
2	Re-elect Mr. Allan McDonald as a Director of the Company	☐	☐	☐
3	Adopt Remuneration Report	☐	☐	☐
4	Approve Termination Benefits Provided under the Executive Performance Share Plan	☐	☐	☐
5	Award Mr. Derek O'Neill fully paid ordinary shares	☐	☐	☐
6	Award Mr. Paul Naude fully paid ordinary shares	☐	☐	☐
7	Increase in Non-Executive Directors' Remuneration	☐	☐	☐
8	Amendment to the Constitution (Special Resolution)	☐	☐	☐

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

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

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

Contact Name ____________________ **Contact Daytime Telephone** ____________________ **Date** ___/___/___

BILLABONG INTERNATIONAL LIMITED ABN 17 084 923 946

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CONTENTS

Detailed information on the financial performance of Billabong International Limited and the remuneration of senior executives is available in the Full Financial Report 2009-10 located on the Company's website (www.billabongbiz.com).


BILLABONG.
Macy Jane
Evie Kate
Monica

CHAIRMAN'S *report*

Billabong International Limited is a leading designer, marketer, wholesaler and retailer of apparel and hardgoods for the global action sports and associated youth lifestyle sector. The Group operates in a space that is dynamic in its visual appeal and capacity to engage a global youth audience, but it is equally dynamic from a business perspective. This was no more apparent than in the 2009-10 financial year during which Billabong played a leading role in the ongoing evolution of the industry.

While Billabong is Australia-based, it operates a truly global business with direct company-owned operations in more than 15 countries and sales into more than 100 countries through in excess of 10,000 retail doors. As a result, more than 80% of the Billabong Group's global revenues are derived from operations outside of Australia. While such a global reach opens up extensive medium and long term growth opportunities, it also exposes the Group to shorter-term regional economic cycles and currency fluctuations. These were again evident through the 2009-10 financial year, during which the key market of the United States started to emerge from the worst of the global financial crisis. At the same time, various European territories experienced their own financial shocks, primarily in relation to sovereign debt. Australia, which had been largely insulated from the worst of the world's financial issues, started to experience a consumer slowdown that accelerated through the second half. The experience in these three markets alone illustrates the ebbs and flows of the global business cycle. Through this, the Billabong Group delivered constant currency profit growth and retained its leadership position within the global action sports industry.

The boardsports sector itself underwent significant change through the year, primarily in response to fallout from the global financial crisis. The changes included a shift from larger forward orders to more in-season buying, increasing house brand offers from larger retailers in some countries, significant growth in online retailing and the emerging trend of urban streetwear with boardsports origins. In acknowledgement of these changes and with the motivation to protect and build upon the significant value of the Group's brands which has been built over several decades, moves were made to strengthen the foundations on which the Group's business is built. The key areas of focus for this were initiatives to protect the wholesale account base by continuing to make significant marketing investments in support of premium pricing of brands in a price-sensitive broader economic environment and by the Group initiating strategies to increase control over its route to market while concurrently adding to its premium brand portfolio.

Specifically, there was recognition of the rapid emergence of internet-based retailing through the Group's purchase of the industry's pre-eminent online retailers – the US-based Swell.com and the Australia-based Surfstitch.com in which the Group acquired an interest. Just after the close of the reporting period, the Group continued to round out its portfolio with the acquisition of the premium, fast growing, California-based RVCA brand. RVCA is widely recognised as a bridge between purely boardsports and urban streetwear and will significantly enhance Billabong's wholesale and retail offerings. Thereafter followed the acquisition of West 49, a 138-door boardsport-focused retailer based in Canada. The transaction, which settled after the close of the period, followed the acquisition of a number of smaller heritage retailers in markets including southern California and Byron Bay in Australia. Together, each of the above-mentioned acquisitions has been made with an eye to the future. It is important to understand that many of the costs of an acquisition are incurred at the time of purchase, meaning the benefits from the acquired business only start to become apparent in future years. It is for this reason the Group has identified the 2010-11 financial year as a strategically significant transition year as management works hard to integrate the new acquisitions to ensure the Group is well placed to maximise opportunities as the business cycle turns.

Both the Board of Directors and management are conscious of making decisions that are in the best long term interest of the business and shareholders. While the move into Company-owned retail operations is more capital intensive and initially compresses the return on capital employed, the longer term benefit of securing and building a route to market to showcase the Group's brand portfolio is compelling. I readily acknowledge that to steer such a course can be challenging and, at times, may affect the business in the short term, but it is entirely consistent with the Group's overall strategic objectives to build long term shareholder value.

I congratulate all employees for their ongoing energy, commitment and focus in the delivery of this vision. Billabong International Limited is indeed a dynamic and progressive company and one that is well positioned for long term growth.

Ted Kunkel
Chairman

CEO'S *report*

Billabong International Limited remained a consistent performer in the 2009-10 financial year, delivering a result that showed both the challenges and benefits of dealing with a global consumer. While a rising Australian dollar ultimately had a negative impact on the 5% growth in net profit after tax in constant currency terms after adding back acquisition transaction costs which are required to be expensed, the Group continued to see some emerging positive signs in both product and shopping trends throughout the year, especially in the Northern Hemisphere. While volatile economic conditions continued in some countries, other areas began to return to more normalised conditions, particularly in the second half. The Group's European business showed strong growth in the face of some weakness in the warmer southern European countries, the USA started to stabilise after a slower start to the financial year and a generally good year for the Australasian region was diminished by a slower post-stimulus consumer environment in Australia. Further inroads were made into newer, exciting markets such as Brazil and Asia, which provide strong opportunities for the Group well into the future. The Group's multi-country and multi-brand business model again allowed it to deliver results and profitability that made it a leader within the global boardsports industry.

Billabong International has historically demonstrated its willingness to evolve and adapt its business model to accommodate the changing competitive environment and broader economic landscape. In recent years, the Group has been exposed to extreme swings in foreign exchange rates, regional economic shocks and related consumer slowdowns, aggressive product clearance by competitors and supply chain pricing pressures. The Billabong Group's response to these challenges has been focused on initiatives to preserve core profitability both in the short and long term. So while the boardsports industry has seen many changes over the years, the Group has consistently demonstrated its ability to successfully navigate through the changes. Along the way, the Group has built a portfolio of some of the strongest youth brands in the boardsports industry and has worked hard at regionally integrating them while also growing its Company-owned retail presence to ensure that all brands are presented in the right way in front of the end consumer.

The global consumer slowdown of the past 18 months, combined with the growth of vertical private label products in some countries and increased margin demands from larger retailers in particular, has highlighted the need to accelerate this evolution, particularly at a retail level in order to protect and build upon the Group's route to market. This dynamic has resulted in various proactive strategies being focused on and executed by the Group, including:

- Fast-tracking growth of the Group's direct-to-consumer model through both bricks and mortar retail and online retail, including:
  - the acquisition of the West 49 retail business in Canada, conditional agreement to acquire the Rush Surf chain in Australia, the acquisition of a number of smaller heritage retailers including Becker Surf and Sport in the US, Bay Action in Australia and, through a joint venture, Surfection in Australia;
  - the acquisition of online boardsport retailer Swell.com and the acquisition of an interest in the Surfstitch.com online business;
  - the opening of greenfield retail stores.
- Extension of the Group's already strong brand portfolio with the acquisition of the dynamic RVCA brand just after the close of the financial year. RVCA is widely viewed as one of the most exciting brands to emerge from within the boardsports sector and its growth opportunities, both within the boardsports market and as a brand that bridges the gap into the wider street and youth market, are considerable.
- Implementation of a new global product lifecycle management system to better manage and leverage the global product design, sampling and manufacturing process.
- Ongoing adjustments to overhead costs throughout the business to better reflect the changing dynamic and balance between wholesale and retail operations.
- Formation of new media partnerships and strategic alliances to capitalise on the growing use of social media and the convergence of the internet and television. By way of example, these included an association with Fuel TV which facilitated the live broadcast of major events on television in countries including Australia, Brazil, Portugal and

Germany and packaged feeds into countries including the USA.

- Renegotiation of the Group's Syndicated Revolving Multi-Currency Facility to increase the total facility balance from US$483.5 million to US$790.0 million. The renegotiation of this facility provides the Group with improved tenor, lower borrowing margins compared to those available when the Group rolled-over a portion of the facility on 11 August 2009, the capacity to fund the forecast requirements of the Group over the four year business plan period, while retaining conservative headroom available under the facility over this period.

While the Group has been proactive in executing the above strategies, there remain a number of constants – including a commitment to brand authenticity and integrity, the preservation of the specialty retail account base and a set of rigorous financial metrics that serve as guiding principles for the business. These metrics include the aspiration to achieve and maintain strong wholesale and retail EBITDA margins, ongoing improvements to pre-tax return on capital employed relative to the Group's pre-tax cost of capital, conservative gearing and the maintenance of appropriate financing headroom. Commitment to each of these is expected to drive strong business performance over time for the benefit of shareholders.

Derek O'Neill
Chief Executive Officer

FINANCIAL *report*

NPAT
$146.0 MILLION

SALES REVENUE
$1.48 BILLION

EBITDA
$253.3 MILLION

EPS
58.3 cents per share

ORDINARY PARTIALLY FRANKED DIVIDEND
36 cents per share (full year)

Billabong International Limited - Year ended 30 June (as reported, AUD)

	FY 2009-10	FY 2008-9	FY 2007-8	FY 2006-7	FY 2005-6	FY 2004-5
Income Statement ($million)						
Third Party Sales	1,482.3	1,669.1	1,347.6	1,222.9	1,018.2	840.7
EBITDA	253.3	284.8	292.0	259.1	235.2	197.3
Depreciation	(35.0)	(37.6)	(27.1)	(21.4)	(14.4)	(8.7)
Amortisation	(0.6)	(0.5)	(0.1)	(0.4)	(1.3)	(1.3)
Impairment	(0.0)	(9.5)	(0.0)	(0.0)	(0.0)	(0.0)
EBIT	217.7	237.2	264.8	237.3	219.5	187.3
Net Interest Expense	(14.7)	(31.2)	(19.2)	(15.5)	(6.6)	(3.6)
Profit Before Income Tax	203.0	206.0	245.6	221.8	212.9	183.7
Income Tax Expense	(57.8)	(53.2)	(69.3)	(54.2)	(67.2)	(58.5)
Profit for the Year	145.2	152.8	176.3	167.6	145.7	125.2
Non-controlling Interest**	0.8	0.0	0.1	(0.4)	0.2	0.0
Profit Attributable to Members of Billabong International Limited	146.0	152.8	176.4	167.2	145.9	125.2
Basic Earnings per Share	58.3 cents	69.2 cents	85.7 cents*	81.2 cents*	70.8 cents*	61.0 cents*
Dividend per Share	36.0 cents	45.0 cents	55.5 cents	50.5 cents	44.0 cents	38.0 cents

* EPS has not been adjusted to reflect the increased issued capital following an equity issue in the 2008-09 financial year.
** Previously called 'Minority Interest'.


VZ
SPEED LIMIT
25

FINANCIAL *overview*

Net profit after tax (NPAT) for the year ended 30 June 2010 was $146.0 million, an increase of 8.1% in constant currency terms (a decrease of 4.5% in reported terms) compared with the 2008-09 year (the prior year). Excluding the after tax impact of an impairment charge expense of $7.4 million in the prior year, NPAT for the year ended 30 June 2010 increased 3.1% in constant currency terms (decreased 8.9% in reported terms) compared with the prior year. After adding back one-off post-tax acquisition transaction costs of $2.7 million, which under new accounting standard requirements now have to be expensed and cannot be capitalised, constant currency NPAT growth lifts to 5.0% compared with the prior year excluding the prior year impairment charge.

REVENUE (AUD MILLION)

Reported NPAT was adversely impacted in particular by the unfavourable effect of the appreciation of the AUD against the USD and the Euro relative to the prior year, generally subdued trading conditions at a consumer level, especially in North America, Japan, New Zealand and South Africa, offset in part by overhead reductions across the business.

Sales revenue of $1,482.3 million, excluding third party royalties, was in line with the prior year in constant currency terms (down 11.2% in reported terms). At a segment level, in constant currency terms, sales revenue in Europe increased 5.2%, the Americas decreased 1.2% and Australasia decreased 1.9% over the prior year.

Consolidated gross margins strengthened to 54.4% compared with the prior year's 53.2%, reflecting improved gross margins in North America in a less promotional environment.

EBITDA of $253.3 million represented a decrease of 0.9% in constant currency terms (a decrease of 11.1% in reported terms) compared with the prior year principally reflecting the unfavourable impact of the appreciation of the AUD against the USD and the Euro relative to the prior year and the generally subdued trading environment.

The consolidated EBITDA margin of 17.1% was in line with the prior year.

In addition to the specific factors discussed by segment below, EBITDA margins have been affected by the allocation of global overhead costs (which include corporate overhead, international advertising and promotion costs, central sourcing costs and foreign exchange movements) and the allocation of these costs to each segment. The increase in global overhead costs compared with the prior year is primarily attributable to foreign exchange movements and a change in the accounting standards which require transaction costs attributable to acquisitions to be expensed rather than capitalised as historically has been the treatment.

AUSTRALASIA

Compared with the prior year in reported terms, sales revenue decreased 4.2% to $425.7 million (down from $444.3 million) and EBITDA decreased 11.2% to $89.2 million (down from $100.4 million). EBITDA margins were lower at 20.9% compared with 22.6% in the prior year, primarily reflecting the abovementioned impact of the allocation of global overhead costs. Excluding the allocation of global overhead costs, EBITDA margins were slightly lower at 24.0% compared with 24.7% in the prior year.

In constant currency terms, sales revenue decreased 1.9% and EBITDA decreased 10.3%.

Sales revenue in Australia was in line with the prior year while trading results in Japan, New Zealand and South Africa were weaker. The Group commenced operations in Thailand and South Korea and the results for both of these territories were in line with expectations.

AMERICAS

Compared with the prior year in reported terms, sales revenue decreased 14.8% to $712.6 million (down from $836.8 million) and EBITDA decreased 7.6% to $92.3 million (down from $99.9 million). EBITDA margins showed improvement at 13.0% compared with 11.9% in the prior year, reflecting the impact of strategies adopted by management. Excluding the allocation of global overhead costs, the improvement in EBITDA margins was stronger at 16.0% compared with 14.0% in the prior year.

In constant currency terms, sales revenue decreased 1.2% and EBITDA increased 5.4%. Strong sales revenue growth was achieved in South America.

EUROPE

Compared with the prior year in reported terms, sales revenue decreased 11.3% to $344.0 million (down from $388.0 million) and EBITDA decreased 15.2% to $69.8 million (down from $82.4 million). EBITDA margins of 20.3% were down on the prior year of 21.2%, primarily reflecting the abovementioned impact of the allocation of global overhead costs. Excluding the allocation of global overhead costs, EBITDA margins were slightly higher at 23.4% compared with 23.3% in the prior year.

In constant currency terms, sales revenue increased 5.2% and EBITDA increased 5.1%. Europe's sales revenue growth in constant currency terms was driven by Germany and Austria, offset by difficult trading conditions in Spain and Italy.

BRAND MARKETING *highlights*

BILLABONG.

Billabong, the Group's foundation brand and one of the pillars of the global action sports sector, maintained its strong presence in established markets and continued to lead the Group's entry into emerging markets. The brand also remained an innovator in terms of the design and development of functional product such as boardshorts and wetsuits for surfers and retained its significant investment into the global marketing and development of the boardsports sector. Marketing continued to focus on sponsored athletes and events, ranging from grassroots activities and regional tours through to major events such as the Billabong ISA World Games held in Costa Rica and Association of Surfing Professionals (ASP) Billabong Pro World Championship Tour (WCT) events in Tahiti, South Africa, Brazil and Hawaii. Among sponsored riders, Swiss snowboarder Anne-Flores Marxer placed second in the prestigious King of the Hill event in Alaska, Jenny Jones, the United Kingdom's most awarded snowboarder, won a third consecutive gold medal at the Winter X-Games in Colorado, Scotty Lago won the bronze medal in the halfpipe competition at the 2010 Winter Olympic Games and fellow snowboarders Wolle Nyvelt and Sylvain Bourbousson completed shooting for their parts in the highly anticipated NowHere production from Absinthe Films. In surf, Brazilian big wave rider Maya Gabeira, a four-time Billabong XXL Big Wave Awards winner, was awarded the US Female Action Sports Athlete for 2010 in the prestigious Teen Choice Awards poll. Surfer Joel Parkinson started 2010 as a world title favourite after winning his second consecutive Triple Crown of Surfing in Hawaii and finishing runner up in the 2009 world title. Fellow surfer Taj Burrow won the season-ending 2009 Billabong Pipeline Masters in Hawaii and the first event of the 2010 season to firm as a title contender, while three-time world champion Andy Irons returned to competition after a year's break, going on to win the 2010 Billabong Pro, Tahiti. Silvana Lima finished second on the 2009 Women's WCT, while team rider Greg Long won the prestigious Quiksilver in Memory of Eddie Aikau big wave event at Waimea Bay. Among skate athletes, Bucky Lasek won the 2009 Dew Cup vert title in the US, while Renton Millar won the 2009 World Cup Skateboarding Vert Champion title in Germany. In wakeboarding, Dylan Prideaux joined the Billabong team as its first Australia-based rider. Billabong also retained its long-standing commitment to humanitarian group SurfAid International.

www.billabong.com

NIXON

Nixon is a leading designer and innovator in the watch and accessories categories in the global action sports market. The brand has strong representation in boardsports retail stores globally and its integration into the Group's regional businesses has taken its compound annual sales growth rate in the financial years from 2007-2010 to more than 20% in areas outside of its home market of North America. The brand's unique style has also led to the inclusion of some of its limited edition product in select high-end fashion retail stores including Barneys in North America, Harvey Nichols in the UK and Citadium in France. The brand opened its first pop-up shop in retailer Henri Bendel in New York and opened a pop-up sound lounge in Sydney International Airport to feature its range of headphones. Included in the Nixon headphone range is the Trooper style, which was selected for a Good Design Award by the Japan Industrial Design Promotion Organization. Nixon's Timeteller watch was also selected as the year's best travel watch by Travel & Leisure Magazine, while the 51-30 watch remained a leading seller. In marketing initiatives, Nixon signed Grammy nominated hip-hop artist Santigold and four-time ASP World Champion Lisa Andersen and current ASP Tour surfer Dusty Payne to its team. Among existing athletes, Travis Pastrana set a world record for the longest jump in a rally car, while Lyn-Z Adams Hawkins became the first female to complete a 540 McTwist manoeuvre during a skateboarding event in France.

www.nixonnow.com

VONZIPPER

VonZipper is a fashion forward brand centred around the alternative mindset with a focus on the eyewear, accessory and premium apparel market. The brand performed strongly in the 2009-10 financial year, with good growth in both global sales and market presence across all business categories. A significant development for the brand was the launch of the VZ Optical collection at the Vision Expo East eyewear show in New York in March 2010. The range, which is being introduced to international markets in the 2010-11 financial year, represents VonZipper's entry into the optical market and has been very well received. In other product development areas, VZ continued to lead the market with six new sunglass styles, the "Shift into Neutral" collection, a range featuring environmentally conscious sunglasses made from the oil of the castor bean, and the limited edition "Facemelt" collection of bright, translucent frames with reflective lenses to bring fun and life into the sunglasses market. VonZipper's lifestyle and personality-focused imagery and marketing, based around its sponsored athletes, characters and being every event's unofficial sponsor, continued to differentiate the brand. Snowboarder John Jackson won both TransWorld Snowboarding and Snowboarder Magazine's prestigious Rider's Poll Award for Men's Rider of the Year and Men's Video Part of the Year. Motocross daredevil Ryan Capes set a world record for a ramp-to-ramp motorcycle jump and a range of athletes including skateboarders Andrew Brophy and Bucky Lasek, surfers Greg Long, Joel Parkinson, Taj Burrow, Josh Kerr and Silvana Lima and freestyle motocross rider Brian Deegan had major event wins and significant editorial coverage. Donavon Frankenreiter continued to be a triple threat favourite of stage, TV and surf, as he played sold out shows with his band, starred in Fuel TV's number one rated series "Drive Thru" and styled line ups around the world. A range of high profile entertainers and personalities were photographed in VonZipper product. Pop sensation Katy Perry was rarely seen without her VZ's on, wearing them in one of her music videos, several fashion shows and relaxing in them in her down time. Actress Drew Barrymore and singers Rhianna, Chris Brown and Tegan from the indie rock band Tegan and Sarah were seen rocking the sunglasses as well as rapper Mickey Avalon and alt rock favourites Weezer. VonZipper had key product placement in print, digital and film in 2009-10 with the highlight being actor Robert Downey Junior wearing the VZ Fulton Red Checker shades in the hit film Iron Man 2. VZ also maintained its sponsorship of the J-Bay Super Heat and the Air Tahiti Nui VonZipper Trials, the prestigious qualifying events to gain entry into two of world surfing's most anticipated professional events, the Billabong Pro Jeffreys Bay and Tahiti. VonZipper continued to give back to their markets by supporting the Surfrider Foundation, having officers and membership in the Surf Industry's Manufacturers Association, developing product for Boarding For Breast Cancer and donating the proceeds to their cause, as well as launching VZ Optical's 'Charity for Clarity' program.

www.vonzipper.com



ELEMENT

Element continues to make its mark as the world's leading skateboard brand. The release of the film 'MAKE IT COUNT, The Element Story', had more than 300,000 views on the web and premiered to a sold out crowd at The Newport Beach Film Festival. FOX Television Network subsequently licensed all four chapters of the film. The 2010 Element Make It Count Amateur Skate Contest Series, presented by the brand's own non-profit organisation, Elemental Awareness, reached approximately 16 million people through digital and online media channels. Element riders Levi Brown, Chad Tim Tim and Darrell Stanton put together one of the most successful online skate videos ever, generating over 500,000 views in a matter of days. Simply titled 'TRIO', the serial videos released consecutively, ushering in a new breed of fans and success. Legendary big wave surfer Greg Noll and his son Jed teamed up with Element to develop the Greg Noll Travel Well line of skateboards. This collaboration pays homage to skateboarding's ancestry, surfing, and ushered in a wave of print and online media attention. A further collaboration with street skate icon Chad Muska and titled 'The Street Art Series' combined graffiti and photography and proved an instant hit. The release of Element Skate Obstacles was well received and allowed skaters to create a world-class skate spot anywhere, anytime. The weatherproof obstacles feature Freshpark Technology and are a ground-breaking line of foldable and easily portable ramps, rails and boxes. The Element Conscious By Nature line continued to flourish, with the release of the Denim Co-Op initiative upholding the brand's longstanding commitment to social and environmental awareness while creating an exceptional offering of denim. A collaboration between design teams in the US and Europe resulted in the development of the Woleboro collection of jackets which helped broaden Element's winter apparel offer. Element also worked closely with skate industry icon Plan B, which has an all-star team including the likes of Paul Rodriguez, Ryan Scheckler, Torey Pudwill and Danny Way, following the signing of a distribution license with the brand. The Element Eden womens line has seen an increased marketing presence due to the strengthening of relationships with major fashion publications, blogs and websites including Teen Vogue, Nylon Magazine and Who What Wear. Element Eden has also witnessed incredible growth in brand coverage by focusing its efforts towards social networking media platforms. This led to a tripling of traffic to the Element Eden website. The addition of online boardsport retailer Swell.com to the Billabong Group benefited Element Eden due to the introduction of a direct click to buy option on all products. Among Element Eden advocates, Amber B launched her new website and held her first solo show in LA titled Summer/Winter, while well-respected fine artist Miya Ando saw her presence rise across global online and print media through an art exhibition in Berlin and steel skateboard and ramp creation with Element in New York. Advocate Amy Purdy focused on growing her organisation, Adaptive Action Sports, and her involvement in organising major action sport events allowed her to showcase the talents of physically disabled athletes within the skateboarding and motocross arenas.

www.elementskateboards.com
www.elementeden.com


tigerlily

Tigerlily, a premium swimwear and fashion brand for women, continued its strong growth in its home market of Australia. Through the 2009-10 financial year, four new Tigerlily stores were opened, two of which saw the brand enter the Melbourne market through locations in the city and within the Australian designer precinct at the Chadstone Shopping Centre. In addition, the official unveiling of the Sydney International Airport terminal upgrade coincided with Tigerlily's first airport-based store opening alongside local and international brands. Further store growth is planned, enabling the brand to showcase the unique handwriting and style that defines Tigerlily. The brand also extended into overseas markets, particularly the US, where its early success indicates that Tigerlily is starting to establish itself within the contemporary and swimwear channels. Tigerlily was featured for the second time at the Miami Swim Show in the US as part of its international development, with an excellent reaction from returning customers. At a product level, brand founder Jodhi Meares has been developing a capsule offer for Tigerlily that is to be launched in the 2010-11 financial year. The range will have limited distribution and has been inspired by Jodhi's Australian lifestyle and travels around the globe.

www.tigerlilyswimwear.com.au



DaKine maintained strong sales growth in the 2009-10 financial year and continued to set the standard in the development of technical accessories for the boardsports sector. The brand made a successful transition into direct sales into Europe as part of a move to ensure better control of future distribution and maximise growth opportunities. DaKine also continued to invest in initiatives to build its visibility. These included sponsorship of the premier ski, snowboard, skate and bike summer camps in the US, ongoing support of leading athletes, investment into a range of product collaborations and social networking activities and growing mainstream media engagement. The brand was active in a range of sports including surfing, skiing, snowboarding, skateboarding, kiteboarding, windsurfing and biking. In surfing, world tour competitors CJ and Damien Hobgood joined the team, Evan and Eric Geiselman signed new long-term sponsorship deals and DaKine riders filled three of the top 10 positions in Surfer Magazine's Hot 100 Men list and the top spot in the Hot 100 Groms list. In skiing, sponsored rider Bobby Brown won the 2010 X Games Big Air and Slopestyle divisions, Kaya Turski won the X Games Slopestyle women's title and Tanner Hall, the subject of a film that is due for release in late 2010, returned to the sport after a 14-month recovery from two broken legs. In snowboarding, team rider Annie Boulanger was awarded Transworld Snowboarding Magazine's 2010 Women's Rider of the Year and 2010 Women's Video Part of the Year, in addition to being a featured character in a new Xbox 360 game. In skateboarding, DaKine riders Ryan Decenzo, Tyler Bledsoe, Sierra Fellers and Peter Ramondetta each achieved strong competitive results in the US, while Corey Duffel joined the team and Chris Haslam was featured in a new skate video game. In kiteboarding, DaKine sponsored a worldwide series of women's camps hosted by nine-time world champion Kristin Boese, while sponsored riders Ben Wilson, Ryland Blakney, Josh Mulcoy, Mauricio Abreu, Bertrand Fleury, Marc Ramseier and Martin Vari each appeared in a new kitesurfing film. In windsurfing, riders Kevin Pritchard and Philip Koster each had strong competitive results. In biking, pro rider Darcy Turenne extended her sponsorship to a head-to-toe program, while fellow riders Geoff Gulevich, Matt Hunter, Thomas Vanderham and Darren Berrecloth each appeared in the new film 'Follow Me'.

www.dakine.com

Xcel experienced solid sales growth as the brand continued to build on its heritage as an innovator in the manufacture of wetsuits and sun protective apparel. While already a strong brand in the US region, Xcel began to see the benefits of integration into the Group's global network and this resulted in good growth in Europe, particularly in wetsuits designed for use in the colder waters of Europe. The brand also experienced good growth in non-coastal sporting goods/outdoor areas, while sales to government increased by approximately 30%. Sustainability and environmental responsibility continued to drive Xcel product and operational decisions. The Hawaii-based brand maintained its use of limestone-based neoprene and glues and further developed fabrics and wetsuit linings using recycled and naturally synthesised materials wherever possible. Xcel's Oahu headquarters further offset its environmental footprint with the continued use of solar electricity and a firm commitment to recycling and the reuse of administrative waste. The brand retained a strong marketing focus on its events and athletes. Its signature event, the Xcel Pro at Sunset Beach in Hawaii, ran in epic conditions in its 26th year. The winner was awarded entry into the 2010 VonZipper Trials at Teahupoo, the qualification event for the 2010 Billabong Pro Tahiti. The Xcel Pro's sister event, the Xcel Pro Showdown at Supertubes, was also run in excellent conditions at Jeffreys Bay, South Africa, with expanded individual performance awards and an impressive champion's purse. Surf team rider Bede Durbidge finished third on the 2009 Association of Surfing Professionals World Tour, the third consecutive year he has finished among the top five. Fellow surf team rider Greg Long won the Quiksilver in Memory of Eddie Aikau big wave event in Hawaii, while Chilean team rider Cristian Merello triumphed at the Quiksilver Ceremonial Big Wave invitational in Chile. Xcel continued its commitment to supporting professional and up-and-coming athletes, enlisting 2009 WWA Wakeboard World Champion Aaron Rathy of Canada, and adding elite level canoe paddlers in Hawaii and stand-up paddle brand ambassadors in the United States and abroad. Outside of athletes and events, Xcel continued to promote skin cancer awareness. Ongoing work with the Cancer Research Centre of Hawaii, a beneficiary of sales from Xcel's UV Performance Gear product, resulted in the establishment of the Xcel Skin Cancer Prevention Fund to support research and educational initiatives.

www.xcelwetsuits.com

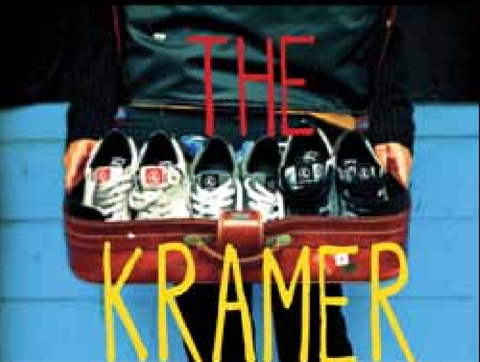
The emerging skate longboard brand Sector 9 continued to grow its international sales and presence in the 2009-10 financial year. Its success was illustrated by industry magazine Transworld Business, which voted Sector 9 as the leading brand in the US based on product turn rates. Sector 9 also achieved excellent results in international territories, with strong sales growth and brand awareness in global markets including Australia. In product terms, Sector 9 continued to build on its range of environment conscious apparel. It also expanded its range of safety accessories from helmets and gloves to now include elbow and knee pads. Sector 9 also developed a line of functional skate clothing, some of which incorporates patent-pending slide glove technology to protect a rider's hands while skating. It was this same focus on innovation which saw Sector 9 launch its patented 'Kush Technology', which is a suspension skateboard truck designed to provide a smoother ride. The technology was two years in development. Sector 9 continued to align with key athletes, signing surfer-environmentalist Dave Rastovich and professional surfer Eric Geiselman to its team of riders. Sector 9 also gained widespread acclaim for its downhill skateboarding film 'Second Nature', which won the best short film category in five festivals, including the prestigious X-Dance film festival in Salt Lake City, Utah.

www.sector9.com

KUSTOM

Kustom continued to focus on product development and marketing initiatives to build brand awareness in the competitive footwear market. A key contributor to the development of the brand was the introduction of its vulcanised footwear into the United States market. This followed the earlier introduction of Kustom's open-toe offer in the US as it sought to establish brand awareness. The extension of the range provided an opportunity to form retail partnerships to lift both the availability and the visual merchandising of the brand. This resulted in Kustom lifting its competitiveness against more established footwear brands and led to new account opportunities. Kustom invested further into product development initiatives, which included the design of a more environmentally-sensitive shoe that is on track for delivery late in calendar 2010. At a marketing level, the brand remained focused on its annual Kustom Airstrike event, which runs for eight months of the year and rewards the world's most progressive aerial surfing manoeuvre. The event has a strong online presence where filmed vision of the leading entries is broadcast. An allied initiative called Landscape Altered, a filmed series showing some of the world's most innovative aerial surfers as they set off on a boat trip to try to land the winning manoeuvre, generated significant additional traffic to the event website and contributed to a doubling of web visitor numbers over the prior year.

www.kustomfootwear.com



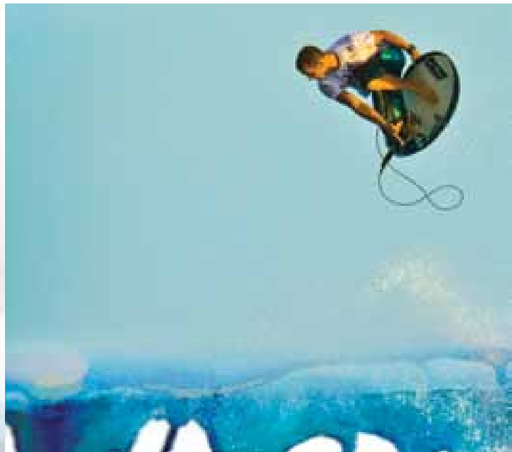
Honolua is a Hawaii-based brand that celebrates the life of the waterman – men and women whose lives revolve around an ocean-inspired lifestyle. The brand performed well in the 2009-10 financial year and gained good momentum on the continued re-emergence of the ancient Hawaiian pursuit of paddleboarding. Honolua was the sponsor of a range of events targeting the paddleboard communities in both Australia and the US, including the 2010 Santa Monica Pier Paddle Race which was revived after a 60-year absence from the venue. Participation in stand-up paddle (SUP) activities also continues to grow strongly around the world, with Honolua's waterman heritage giving it an authentic and recognised association with the sport. The growth in the discipline, which is popular in rivers, lakes and oceans, has also resulted in the emergence of retailers catering almost exclusively to the SUP market and has allowed Honolua to penetrate into non-coastal areas and explore opportunities for new product development. Honolua also continues to support events recognising the heritage of surfing. There was excellent public participation in the Honolua-sponsored 'The Harbour Chronicles: A Life in Surfboard Culture', a unique surf exhibition and associated book covering the 50-year career of Californian shaper and retailer Rich Harbour. Such events help recognise those who have made significant contributions to the evolution of surf culture.

www.honoluasurf.com

Palmers is a long-established and leading producer of surf wax and accessories. The brand, founded in its major market of Australia, continued its gradual move into international markets and recorded steady growth on the strength of the product offering and the increased brand awareness. At a product level, the Palmers apparel offer continued to evolve, with the focus on boardshorts, walkshorts, denim and Australian-humour t-shirts that communicate the brand's irreverent and core surf heritage. Palmers was represented by its key athletes, surfers Josh Kerr and Heath Joske, who both maintained strong profiles through the year.

In an amazing display of progressive surfing, Josh won the Drug Aware Pro in Margaret River, defeating world-title contender Taj Burrow in a memorable final. Josh also launched his website, www.Kerr-azy.com, and was working to finalise a new film, 'Kerr-azy Kronicles'. Team mate Heath turned his focus to competing on the World Qualifying Series, the stepping stone to the surfing's World Championship Tour, following an impressive pro junior career. Palmers also continued to benefit from the heightened media profile of brand ambassador Brooke Evers, the public face of the brand.

www.palmerssurf.com.au



RVCA

The inspirational RVCA brand was acquired by the Group shortly after the close of the 2009-10 financial year. RVCA is considered one of the most exciting brands to emerge from within the action sports sector, but its reach transcends these boundaries to make it a design-driven lifestyle brand that is equally at home in both boutiques and local skate shops. The brand brings together like-minded individuals from a cross section of subcultures to deliver a platform of expression for art, music, fashion and sport cultures. At the forefront of this vision has been RVCA's Artist Network Program (ANP) – a venture established to showcase the talents of accomplished as well as unknown artists who lead the youth generation and push the boundaries of creative excellence. The ANP is the driving force behind RVCA's significant premium t-shirt business. A by-product of the ANP is the ANP Quarterly, a magazine published by RVCA and featuring stories that inspire the brand and leave an impact on the global arts community. The RVCA skate team, featuring riders including Leo Romero, Kevin 'Spanky' Long, Josh Harmony and Cory Kennedy, is known as a close knit family, constantly travelling the world and creating some of the most exciting filmed content in the industry. Leo Romero lends his name to RVCA's most successful signature jean and has helped drive significant growth in the brand's denim business. The surf team is comprised of a wide variety of personalities and has stood out in the industry for creating iconic imagery and setting style trends with the likes of Alex Knost, Danny Fuller, Matt Archbold, Makua Rothman and Kalani David. Through its support of globally recognised mixed martial arts icon, BJ Penn, RVCA developed VA-Sport, a performance based apparel range for maintaining comfort and style through rigorous cross training. A thriving womens offering has gained notoriety from building the action sports industry's first-ever high fashion offering, RVCA x Erin Wasson. The three-year project saw RVCA on the runways of New York's fashion week and generated excitement from the global fashion elite.

www.rvca.com

RETAIL

The creation and support of compelling retail environments to appropriately display the depth of the Group's ranges and provide consumers with an authentic brand experience remained an important consideration in the 2009-10 financial year. The Billabong Group lifted its investment in its direct-to-consumer business, particularly in regions where there was a limited availability of appropriate youth-focused boardsport retailers. This saw the number of Company-owned doors lift to 380, from 335 in the prior year. Retail EBITDA margins improved to 10.9%, from 10.2% in the prior year, despite the dilutionary impact of new store openings which were yet to achieve full performance as evidenced by EBITDA margins for stores opened two years or longer which improved to 14.6% (from 11.8% in the prior year). Total revenue from Company-owned doors remained steady at 24% of the Group's global sales.

The Group's Company-owned retail door count in the Americas remained unchanged at 111, with 11 doors closed and 11 doors opened through the year. On 30 June 2010 the Group also announced a bid for West 49, the Group's largest retail account in Canada. The purchase subsequently received West 49 shareholder approval and court approval, leading to the completion of the deal on 1 September 2010. The West 49 acquisition adds a further 138 doors to the Company-owned store count and introduces further retail management experience into the Group.

The number of Company-owned doors in Europe lifted to 103 (from 81 in the prior year), with 28 doors opened and six closed in the period. The new doors included the opening of 14 branded shop-in-shop concepts in Spain, while the integration of the local distributor in the Czech Republic included a six door retail business.

In Australasia, the number of Company-owned retail stores lifted to 166 (from 143 in the prior year), with 13 doors closed and 36 opened. The majority of new doors were opened in Australia, where the door count lifted to 41 (from 29 in the prior year) and Asia. A new Tigerlily store concept was introduced into the Australian market at locations including Chadstone, Melbourne Central and Warringah Mall in Sydney. Following the close of the financial year, the Group entered a joint venture with the two door Surfection retail business in Sydney. Additionally, the Group announced a conditional agreement to acquire the 36-door Rush Surf chain, primarily based in regional Queensland.

In online retailing, the Group acquired the California-based Swell.com and took a partial interest in the Australia-based Surfstitch.com. Like the majority of the Group's physical retail doors, the two online businesses are multi-branded retailers carrying a wide selection of Company-owned and competing brands.

BEACH CULTURE

SYDNEY

BOARD *of* DIRECTORS

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

DEREK O'NEILL
(Executive Director)
Derek O'Neill was appointed as Chief Executive Officer effective 1 January 2003. He has previously held senior management positions with Billabong, including General Manager of Billabong's European operations from 1992-2003. In 2002, Mr O'Neill was awarded a Chevalier d'Ordre de Merite Nationale for services to business in France. He was appointed Executive Director on 5 March 2002.

TONY FROGGATT
(Non-Executive Director)
Tony Froggatt was the CEO of Scottish and Newcastle PLC brewing company based in Edinburgh, UK, until he retired on 31 October 2007 to return to Australia. He has extensive marketing and distribution knowledge in Australia, Western and Central Europe and Asia, particularly in the international food and beverages sectors. He was appointed Non-Executive Director on 21 February 2008 and is a Member of the Nominations, Human Resource and Remuneration and Audit Committees. Tony is also a current Director of Brambles Industries Limited, AXA Asia Pacific Holdings Limited and National Mutual Life Association of Australasia Ltd.

MARGARET JACKSON AC
(Non-Executive Director)
Margaret Jackson was a Partner of KPMG Peat Marwick's Management Consulting Division and National Chairman of the KPMG Micro Economic Reform Group until 30 June 1992, when she resigned to pursue a full-time career as a company director. Margaret was previously a Director of Australia and New Zealand Banking Group Limited, The Broken Hill Proprietary Company Limited, Pacific Dunlop Limited and Chairman of Qantas Airways Limited. Margaret is a Director and Chairman of FlexiGroup Limited, President of Australian Volunteers International and the Advisory Board Chairman for the Salvation Army Southern Territory. Margaret was awarded a Companion of the Order of Australia in the General Division (AC) in June 2003 for service to business in diverse and leading Australian corporations and to the community in the area of support for medical research, the arts and education. She was appointed Non-Executive Director on 4 July 2000 and is Chairman of the Human Resource and Remuneration Committee and a Member of the Nominations and Audit Committees.

ALLAN MCDONALD
(Non-Executive Director)
Allan McDonald has extensive experience in the investment and commercial banking fields and is presently associated with a number of companies as a consultant and company Director. He was appointed Non-Executive Director on 4 July 2000 and is Chairman of the Audit Committee and a member of the Nominations and Human Resource and Remuneration Committees. Allan is also a Director and Chairman of Ross Human Directions Limited, Multiplex Property Trust, Multiplex SITES Trust, Astro Japan Property Group, Multiplex Acumen Property Fund, Multiplex European Property Fund and Multiplex Prime Property Fund.

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

PAUL NAUDE
(Executive Director)
Paul Naude was appointed President of Billabong's American operations in 1998 and established Billabong USA as a wholly owned activity in North America. He has been involved in the surfing industry since 1973 with extensive experience in apparel brand management. Paul was appointed Executive Director on 14 November 2002.

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

SUSTAINABILITY *overview*

The Billabong Group has a range of social and environmental initiatives embedded into the day-to-day operations of the business. These include a mix of region-specific activities such as participation in recycling programs or support of local causes through to whole-of-Group programs such as global carbon accounting and reporting and the ongoing support of humanitarian group SurfAid International.

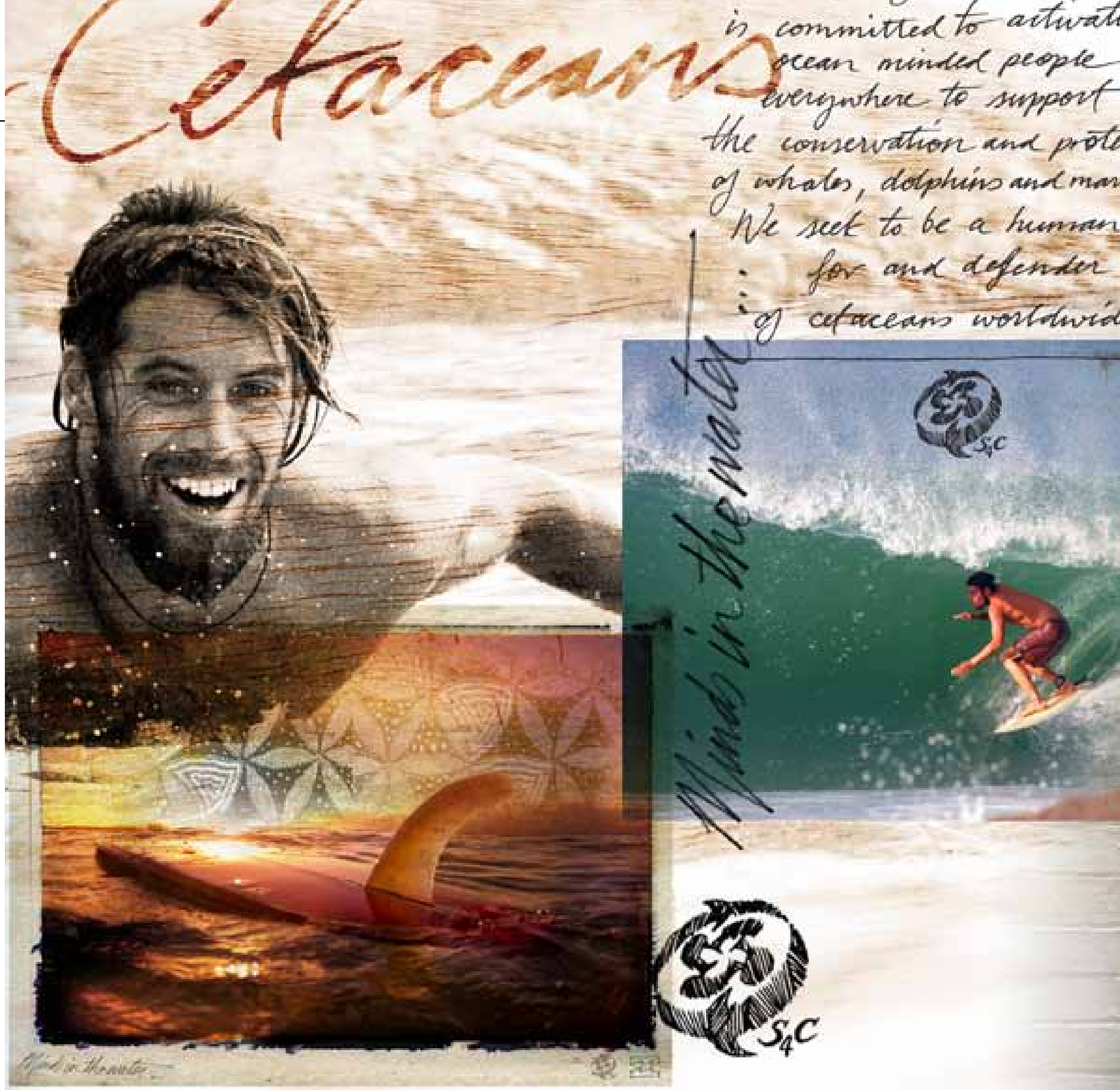
Included in the Group's major global initiatives is the application of Social Accountability International's SA8000 workplace standard. SA8000 is an independent, auditable standard by which the Group assesses working conditions within factories of third party manufacturers. The Group formally adopted the SA8000 standard in 2005 and has invested heavily into its application and ongoing auditing. During the 2009-10 financial year, the Group conducted 264 full SA8000 audits, in addition to 271 SA8000 corrective action plan audits. The corrective action plans are designed to encourage and monitor continual improvement throughout the supply chain.

The Group maintained its support for aid organisation SurfAid International, both in direct funding and through the ongoing development and geographic expansion of the SurfAid International Schools Program. The program, which seeks to develop the social conscience of youth, was initially rolled out in schools through Australia and New Zealand and plans were finalised through the year for its trial in US schools through 2010-11.

The environment remained another area of focus, with the Group continuing to voluntarily measure and publicly report its global carbon footprint. The initiative involves the collection of data from more than 400 individual properties across 25 countries in which the Group has directly-controlled offices or retail banners. The carbon inventory is measured using the

National Greenhouse Energy Reporting (NGER) methodology. NGER is the official reporting standard adopted in Australia, Billabong's home market, and is based on independent global standards including the Greenhouse Gas Protocol. Based on preliminary data, the Group's combined scope 1 and 2 carbon footprint for the 2009-10 financial year was 18,281 tonnes of CO_2 equivalent. The footprint is higher than the prior year's figure, although the Group made a number of acquisitions and lifted its global retail presence through the 2009-10 year. A breakdown of the Group's emissions profile is available on www.billabongbiz.com.

The Group has implemented a range of in-house initiatives to drive better environmental outcomes. These include a range of product development programs focusing on the use of more sustainable materials. One that continued to attract positive feedback was the Billabong boardshorts made from recycled plastic bottles. The Group has recycled more than six million plastic bottles since the program began in 2007. In-house recycling initiatives also continue, with the traditional paper recycling complemented in some locations by similar programs for fabric swatches, ink toner cartridges and mobile phones. The Group is also continuing with its trial of energy efficient lighting in a range of retail locations to help minimise power consumption.



GOVERNANCE *overview*

The Board of Directors is responsible to shareholders for the performance of the Group and believes that high standards of corporate governance underpin the Company's objective of maximising returns to shareholders. The Board is committed to the highest level of governance and endeavours to foster a culture that rewards ethical standards and corporate integrity.

GOVERNANCE STRUCTURE

The Board of Directors has established Committees to assist in the exercise of its authority, including the monitoring of business performance. The permanent Committees of the Board are the Audit Committee, the Human Resource & Remuneration Committee and the Nominations Committee. Only Non-Executive Directors serve as members of these Committees and the Chairs of the Board and the respective Committees are independent Directors.

SKILLS AND EXPERIENCE OF THE BOARD OF DIRECTORS

The Board of Directors regularly review the skill set of executive and Non-Executive Directors required to discharge the Board's duties necessary to effectively govern the business having regard to its strategic direction. The Non-Executive Directors contribute international and brand experience, knowledge of capital markets, health and safety, environmental and operations. The Executive Directors provide a deeper knowledge of the operational and strategic aspects of the business and the boardsports industry.

RISK MANAGEMENT

The identification and management of risk is central to the achievement of the objective of maximising returns to shareholders. Each year the Board of Directors review and consider the risk profile of the business. The Board has delegated the oversight of risk management to the Audit Committee.

COMPANY WEBSITE

Full details of the Company's Corporate Governance Statement are available on the Billabong corporate website www.billabongbiz.com

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CORPORATE *directory*

DIRECTORS

Ted Kunkel, Non-Executive Chairman
Derek O'Neill, Chief Executive Officer
Tony Froggatt, Non-Executive Director
Margaret Jackson, AC, Non-Executive Director
Allan McDonald, Non-Executive Director
Gordon Merchant, AM, Non-Executive Director
Paul Naude, Executive Director
Colette Paull, Non-Executive Director

COMPANY SECRETARY

Maria Manning, B.Bus (Acc), CPA and FCIS

SENIOR MANAGEMENT

Chief Executive Officer: **Derek O'Neill**
Chief Financial Officer: **Craig White**
General Manager, Billabong Australasia: **Shannan North**
General Manager, Billabong Europe: **Franco Fogliato**
General Manager, Billabong North America: **Paul Naude**
General Manager, Billabong South America: **Chris Kypriotis**

PRINCIPAL AND REGISTERED OFFICE

1 Billabong Place
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Telephone: +61 7 5589 9899
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Marketing: www.billabong.com

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Email: web.queries@computershare.com.au

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SOLICITORS

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Level 28, Deutsche Bank Place
Corner of Hunter & Phillip Streets SYDNEY NSW 2000
Clayton Utz
71 Eagle Street BRISBANE QLD 4000
Freehills
101 Collins Street MELBOURNE VIC 3000
Minter Ellison
159 Varsity Parade VARSITY LAKES QLD 4227

BANKERS

Australia and New Zealand Banking Group Limited
324 Queen Street BRISBANE QLD 4000
Bank of America Merrill Lynch
19 Martin Place SYDNEY NSW 2000
Commonwealth Bank of Australia
240 Queen Street BRISBANE QLD 4000
HSBC Bank Australia Limited
HSBC Building 300 Queen Street BRISBANE QLD 4000
National Australia Bank Limited
100 Creek Street BRISBANE QLD 4000
Societe Generale
RESO/CLT/ENT
TOUR GRANITE
17 cours VALMY
75886 PARIS Cedex 18 FRANCE
Westpac Banking Corporation
260 Queen Street BRISBANE QLD 4000

STOCK EXCHANGE LISTING

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

ANNUAL GENERAL MEETING

The Annual General Meeting of Billabong International Limited will be held in the Surfers Paradise rooms I & II at Jupiters, Broadbeach Island, Broadbeach, Qld, on Tuesday 26 October 2010 commencing at 10.00am. A formal Notice of Meeting and Proxy Form will be made available to all shareholders.


paper made carbon neutral
PCF
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100%

BILLABONG INTERNATIONAL LIMITED ABN 17 084 923 946

BILLABONG.
FULL FINANCIAL Report 09 10

CORPORATE *directory*

DIRECTORS
Ted Kunkel, Non-Executive Chairman
Derek O'Neill, Chief Executive Officer
Tony Froggatt, Non-Executive Director
Margaret Jackson, AC, Non-Executive Director
Allan McDonald, Non-Executive Director
Gordon Merchant, AM, Non-Executive Director
Paul Naude, Executive Director
Colette Paull, Non-Executive Director

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Maria Manning, B.Bus (Acc), CPA and FCIS

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Billabong International Limited

ABN 17 084 923 946

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Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Billabong International Limited (the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2010.

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

E.T. Kunkel
D. O'Neill
A. G. Froggatt
M.A. Jackson
F.A. McDonald
G.S. Merchant
P. Naude
C. Paull

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

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

	$'000
• Final ordinary dividend partially franked to 50% for the year ended 30 June 2009 of 18.0 cents per fully paid share paid on 23 October 2009	45,363
• Interim ordinary dividend partially franked to 50% for the year ended 30 June 2010 of 18.0 cents per fully paid share paid on 22 April 2010	45,515
	90,878

In addition to the above dividends, since the end of the financial year the Directors have resolved to pay a final ordinary dividend partially franked to 50% of $45.6 million (18.0 cents per fully paid share) to be paid on 22 October 2010 out of retained profits at 30 June 2010.

The unfranked portion of the dividend is declared to be conduit foreign income. Australian dividend withholding tax is not payable by non-resident shareholders on the unfranked portion of the dividend sourced from conduit foreign income.

The Dividend Reinvestment Plan ("DRP") was approved by the Directors on 21 August 2008. For the final dividend to be paid on 22 October 2010, the DRP is optional and offers ordinary shareholders the opportunity to acquire fully paid ordinary shares which rank equally with all other shares issued, without transaction costs, at the prevailing market value. A shareholder can elect to participate in or terminate their involvement in the DRP in respect of the 2010 final dividend at any time prior to the record date of 24 September 2010. The DRP in relation to the 2010 final dividend will not be underwritten. The terms of the DRP may be varied for future dividends beyond the final dividend for the year ended 30 June 2010.

Review of operations

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

Segment	Segment revenues		Segment EBITDA*	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Australasia	425,663	444,260	89,175	100,378
Americas	712,633	836,836	92,311	99,911
Europe	344,023	387,966	69,847	82,352
Third party royalties	2,009	2,189	2,009	2,189
	1,484,328	1,671,251	253,342	284,830
Less: Net interest expense			(14,739)	(31,173)
Depreciation and amortisation			(35,572)	(38,134)
Impairment charge			---	(9,476)
Profit from continuing operations before income tax expense			203,031	206,047
Income tax expense			(57,865)	(53,208)
Profit from continuing operations after income tax expense			145,166	152,839
Loss attributable to non-controlling interest			822	---
Profit attributable to members of Billabong International Limited			145,988	152,839
Add back: Post tax impairment charge			---	7,396
Profit attributable to members of Billabong International Limited before impairment charge			145,988	160,235

* Segment Earnings Before Interest, Taxes, Depreciation and Amortisation ("EBITDA") 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).

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

Consolidated Result

Net profit after tax ("NPAT") for the year ended 30 June 2010 was $146.0 million, an increase of 8.1% in constant currency terms (a decrease of 4.5% in reported terms) compared with the 2008/09 year (the prior year). Excluding the after tax impact of an impairment charge expense of $7.4 million in the prior year, NPAT for the year ended 30 June 2010 increased 3.1% in constant currency terms (decreased 8.9% in reported terms) compared with the prior year. After adding back one-off post-tax acquisition transaction costs of $2.7 million, which under new accounting standard requirements now have to be expensed and cannot be capitalised, constant currency NPAT growth lifts to 5.0% compared with the prior year excluding the prior year impairment charge.

Reported NPAT was adversely impacted in particular by the unfavourable effect of the appreciation of the AUD against the USD and the Euro relative to the prior year, generally subdued trading conditions at a consumer level, especially in North America, Japan, New Zealand and South Africa, offset in part by overhead reductions across the business.

Sales revenue of $1,482.3 million, excluding third party royalties, was in line with the prior year in constant currency terms (down 11.2% in reported terms). At a segment level, in constant currency terms, sales revenue in Europe increased 5.2%, the Americas decreased 1.2% and Australasia decreased 1.9% over the prior year.

Consolidated gross margins strengthened to 54.4% compared with the prior year's 53.2%, reflecting improved gross margins in North America in a less promotional environment.

EBITDA of $253.3 million represented a decrease of 0.9% in constant currency terms (a decrease of 11.1% in reported terms) compared with the prior year principally reflecting the unfavourable impact of the appreciation of the AUD against the USD and the Euro relative to the prior year and the generally subdued trading environment.

The consolidated EBITDA margin of 17.1% was in line with the prior year.

Segment Analysis

In addition to the specific factors discussed by segment below, EBITDA margins have been affected by the allocation of global overhead costs (which include corporate overhead, international advertising and promotion costs, central sourcing costs and foreign exchange movements) and the allocation of these costs to each segment. The increase in global overhead costs compared with the prior year is primarily attributable to foreign exchange movements and a change in the accounting standards which require transaction costs attributable to acquisitions to be expensed rather than capitalised as has historically been the treatment.

Review of operations (continued)

Australasia
Compared with the prior year in reported terms, sales revenue decreased 4.2% to $425.7 million (down from $444.3 million) and EBITDA decreased 11.2% to $89.2 million (down from $100.4 million). EBITDA margins were lower at 20.9% compared with 22.6% in the prior year, primarily reflecting the abovementioned impact of the allocation of global overhead costs. Excluding the allocation of global overhead costs, EBITDA margins were slightly lower at 24.0% compared with 24.7% in the prior year.

In constant currency terms, sales revenue decreased 1.9% and EBITDA decreased 10.3%.

Sales revenue in Australia was in line with the prior year while trading results in Japan, New Zealand and South Africa were weaker. The Group commenced operations in Thailand and South Korea and the results for both of these territories were in line with expectations.

Americas
Compared with the prior year in reported terms, sales revenue decreased 14.8% to $712.6 million (down from $836.8 million) and EBITDA decreased 7.6% to $92.3 million (down from $99.9 million). EBITDA margins showed improvement at 13.0% compared with 11.9% in the prior year, reflecting the impact of strategies adopted by management. Excluding the allocation of global overhead costs, the improvement in EBITDA margins was stronger at 16.0% compared with 14.0% in the prior year.

In constant currency terms, sales revenue decreased 1.2% and EBITDA increased 5.4%.

Strong sales revenue growth was achieved in South America.

Europe
Compared with the prior year in reported terms, sales revenue decreased 11.3% to $344.0 million (down from $388.0 million) and EBITDA decreased 15.2% to $69.8 million (down from $82.4 million). EBITDA margins of 20.3% were down on the prior year of 21.2%, primarily reflecting the abovementioned impact of the allocation of global overhead costs. Excluding the allocation of global overhead costs, EBITDA margins were slightly higher at 23.4% compared with 23.3% in the prior year.

In constant currency terms, sales revenue increased 5.2% and EBITDA increased 5.1%.

Europe's sales revenue growth in constant currency terms was driven by Germany and Austria, offset by difficult trading conditions in Spain and Italy.

Depreciation and Amortisation Expense
Depreciation and amortisation expense decrease of 6.7% in reported terms (increase of 5.8% in constant currency terms) was principally driven by both acquisitions and retail store expansion.

Impairment Charge Expense
There is no impairment charge expense in the year ended 30 June 2010 however in the prior year, as a result of the impairment review of retail store assets, certain assets were written down to their recoverable amount, being their value-in-use. For the prior year, this resulted in a pre-tax impairment charge in respect of retail stores which amounted to $9.5 million.

Net Interest Expense
The decrease in net interest expense of 52.7% in reported terms (45.9% in constant currency terms) compared with the prior year was principally driven by a reduction in borrowings as a result of the repayment of debt from the proceeds received from the capital raising announced in May 2009, together with several initiatives which have been implemented to improve treasury management efficiency across the Group.

Income Tax Expense
The income tax expense for the year ended 30 June 2010 is $57.9 million (2009: $53.2 million), an effective rate of tax of 28.5% (2008: 25.8%). The higher effective tax rate reflects the impact of several one-off tax adjustments included in the prior year. Adjusting for these one-off tax adjustments, the effective tax rate in the prior year would have been approximately 28.0%.

Review of operations (continued)

In addition to the bilateral Advanced Pricing Agreement the Group has in place with both the Australian Tax Office and the United States Internal Revenue Service, on 2 July 2009 a unilateral Advanced Pricing Agreement was entered into with the French Taxation Authority in France in relation to the royalty rate used by GSM (Europe) Pty Ltd for the right to use certain Group brands and trademarks. This agreement will cover the period 1 July 2006 to 30 June 2011 and provides certainty for the Group in respect of royalties being paid in accordance with French transfer pricing rules and regulations.

Consolidated Balance Sheet, Cash Flow Items and Capital Expenditure
Working capital at $422.4 million represents 28.3% as a percentage of the prior twelve months' sales stated at year end exchange rates, being in line with the prior year.

Cash flow from operations of $187.2 million represents a 6.6% increase over the prior year driven by lower finance cost payments. Net cash receipts of $252.1 million are slightly lower than the prior year reflecting the lower reported EBITDA result. Overall the Group delivered a stronger cash flow result compared with the prior year as demonstrated by net cash receipts from customers and payments to third parties representing 100% of EBITDA compared with 91% for the prior year.

Cash outflow from investing activities of $105.8 million was in accordance with expectations and includes the acquisition of the United States based online boardsports retailer swell.com as announced on 24 November 2009, the acquisition of an interest in the Australian based online boardsports retailer surfstitch.com as announced on 23 December 2009, the second instalment payment for the DaKine acquisition and investment in owned retail globally.

Net debt decreased 3.7% to $216.7 million over the prior year. The Group has a conservative gearing ratio (net debt to net debt plus equity) of 15.1% (16.0% in the prior year) and strong interest cover of 12.6 times (7.1 times in the prior year).

On 4 August 2010, the Group renegotiated its Syndicated Revolving Multi-Currency Facility which included:

- an increase in the total facility balance from US$483.5 million to US$790.0 million to be split equally between the two tranches under the facility;
- an extension to 1 July 2013 of the three year tranche of the facility, to remain a three year facility; and
- an extension to 1 July 2014 of the three year tranche of the facility, to become a four year facility.

The renegotiation of this facility provides the Group with improved tenor, lower borrowing margins compared to those available when the Group rolled-over a portion of the facility on 11 August 2009, the capacity to fund the forecast requirements of the Group over the four year business plan period, while retaining conservative headroom available under the facility over this period.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

On 30 June 2010, the Group announced that it had entered into a definitive acquisition agreement with West 49 Inc, a leading Canadian speciality retailer of apparel, footwear, accessories and equipment related to the youth action sports lifestyle. The operating results and certain assets and liabilities of the business will be consolidated from the time all conditions required for contractual completion have been satisfied, therefore the financial effects of the transaction have not been brought to account at 30 June 2010. It is anticipated the acquisition will be completed by the end of August 2010, subject to the approval of not less than two-thirds of the votes cast by West 49 securityholders at a special meeting to be held on 24 August 2010.

The purchase price represents an enterprise value of C$99.0 million (A$110.4 million) based on a fully diluted equity value of approximately C$90.2 million (A$100.6 million) and net debt of C$8.8 million (A$9.8 million) as of 30 April 2010. The transaction will be funded from the Group's existing debt facilities.

On 12 July 2010, the Group announced the acquisition of RVCA, a progressive art and design-driven brand. The conditions for contractual completion were satisfied on 21 July 2010 and therefore the financial effects of the transaction have not been brought to account at 30 June 2010.

Matters subsequent to the end of the financial year (continued)

On 4 August 2010, the Group renegotiated its Syndicated Revolving Multi-Currency Facility which included:

- an increase in the total facility balance from US$483.5 million to US$790.0 million to be split equally between the two tranches under the facility;
- an extension to 1 July 2013 of the three year tranche of the facility, to remain a three year facility; and
- an extension to 1 July 2014 of the three year tranche of the facility, to become a four year facility.

On 20 August 2010, the Group announced that it had reached conditional agreement to acquire the 36-door Rush Surf retail chain in Australia. It is anticipated that the purchase will complete in October 2010 and therefore the financial effects of the transaction have not been brought to account at 30 June 2010.

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

Looking ahead, in the absence of any further unforeseen, exceptional circumstances impacting the global boardsports market, the Group is providing a range within which it expects to perform in the 2010/11 financial year. At this time, NPAT in constant currency terms is expected to grow in the range of 2% to 8% compared with the prior year as an improving outlook in the Americas and continued strength in Europe is offset by a challenging market in the key territory of Australia. This earnings guidance, which reflects a reasonably flat expected EBIT result, higher interest costs and a lower effective tax rate, is expressed as a range due to continued volatility in the global markets in which the Group operates, in particular the Australian consumer market.

The Group views the 2010/11 financial year as a transition year, with various strategic moves enhancing its route to market to deliver its target consumer the compelling branded portfolio offer that the Group has developed over the past 10 years.

Thereafter, as the anticipated global recovery gradually takes hold, and given the successful execution of various strategic and operational initiatives, the Group expects to return, in the absence of further unforeseen, exceptional circumstances, to more historic EPS growth rates in excess of 10% per annum in constant currency terms.

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

Environmental regulation

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

Information on Directors

TED KUNKEL (*Non-Executive Chairman)*

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

Other current directorships
None.

Former directorships in last 3 years
None.

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

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

DEREK O'NEILL (*Executive Director)*

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

Other current directorships
None.

Former directorships in last 3 years
None.

Special responsibilities
Chief Executive Officer.

Interests in shares and options
1,117,516 ordinary shares in Billabong International Limited.
216,237 share rights in Billabong International Limited.
629,007 options in Billabong International Limited.

Information on Directors (continued)

TONY FROGGATT (*Non-Executive Director)*

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

Other current directorships
Brambles Industries Limited, since 1 June 2006.
AXA Asia Pacific Holdings Limited, since 16 April 2008.
National Mutual Life Association of Australasia Ltd, since 16 April 2008.

Former directorships in last 3 years
Scottish and Newcastle PLC from 12 May 2003 to 31 October 2007.

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

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

MARGARET JACKSON AC *(Non-Executive Director)*

Experience and expertise
Margaret Jackson was a Partner of KPMG Peat Marwick's Management Consulting Division and National Chairman of the KPMG Micro Economic Reform Group until 30 June 1992, when she resigned to pursue a full-time career as a company director. Ms Jackson was previously a Director of Australia and New Zealand Banking Group Limited, The Broken Hill Proprietary Company Limited, Pacific Dunlop Limited and Chairman of Qantas Airways Limited. Margaret is also President of Australian Volunteers International and the Advisory Board Chairman for the Salvation Army Southern Territory.

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

Other current directorships
FlexiGroup Limited, director and Chairman since 20 November 2006.

Former directorships in last 3 years
Australia and New Zealand Banking Group Limited, from 22 March 1994 to 21 March 2009.
Qantas Airways Limited, Director from 1 July 1992 to 14 November 2007 and Chairman from 1 August 2000 to 14 November 2007.

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

Interests in shares and options
275,838 ordinary shares in Billabong International Limited.

Information on Directors (continued)

ALLAN MCDONALD (*Non-Executive Director)*

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

Other current directorships
Ross Human Directions Limited, Director and Chairman since 3 April 2000.
Multiplex Property Trust (Director of responsible entity, Brookfield Multiplex Funds Management Limited), director since 22 October 2003 and Chairman from May 2005.
Multiplex SITES Trust (Director of responsible entity, Brookfield Multiplex Funds Management Limited), director since 22 October 2003 and Chairman from May 2005.
Astro Japan Property Group (Director of responsible entity, Astro Japan Property Management Limited), director and Chairman since 19 February 2005.
Multiplex Acumen Property Fund, Multiplex European Property Fund and Multiplex Prime Property Fund (Director of responsible entity, Brookfield Multiplex Capital Management Limited) Director and Chairman since 1 January 2010.

Former directorships in last 3 years
Multiplex Limited, from 22 October 2003 to 31 October 2007.

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

Interests in shares and options
153,046 ordinary shares in Billabong International Limited.

GORDON MERCHANT AM *(Non-Executive Director)*

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

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

Former directorships in last 3 years
None.

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

Interests in shares and options
37,770,098 ordinary shares in Billabong International Limited.

Information on Directors (continued)

PAUL NAUDE *(Executive Director)*

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

Other current directorships
None.

Former directorships in last 3 years
None.

Special responsibilities
General Manager, Billabong USA.

Interests in shares and options
1,105,988 ordinary shares in Billabong International Limited.
187,027 share rights in Billabong International Limited.
524,170 options in Billabong International Limited.

COLETTE PAULL (*Non-Executive Director)*

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

Other current directorships
None.

Former directorships in last 3 years
None.

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

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

Company Secretary

The Company Secretary is Ms Maria Manning B.Bus (Acc), CPA and FCIS. Ms Manning was appointed to the position of Company Secretary in April 2006. She has over 19 years experience as a Company Secretary of publicly listed companies in Australia.

Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2010, and the numbers of meetings attended by each Director were:

	Billabong International Limited Board									
	Scheduled Meetings		**Unscheduled Meetings**		**Audit Committee**		**Nominations Committee**		**Human Resource and Remuneration Committee**	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
E.T. Kunkel	9	9	5	5	4	4	2	2	7	7
D. O'Neill	9	9	5	5	*	*	*	*	*	*
A.G. Froggatt	9	9	5	4	4	4	2	2	7	7
M.A. Jackson	9	9	5	5	4	4	2	2	7	7
F.A. McDonald	9	9	5	5	4	4	2	2	7	7
G.S. Merchant	9	9	5	4	4	4	2	2	7	7
P. Naude	9	9	5	4	*	*	*	*	*	*
C. Paull	9	9	5	5	4	4	2	2	7	7

* Not a member of the relevant Committee.

Remuneration report

A letter from our Human Resource and Remuneration Committee Chair (unaudited)

Dear Shareholders,

Director and executive pay has grown in complexity over recent years. At Billabong International Limited, we await with interest the changes that may result from the ongoing reviews initiated by the Government. In the interim, through this letter, I would like to take the opportunity to explain to you our approach as simply as possible.

At our Annual General Meeting you will be able to seek further clarity through asking any questions you may have.

Our executives

We have a strong and stable executive team. Together, the executive team has over 58 years of experience with the Billabong Group. The remuneration approach is designed to ensure these individuals are retained and motivated to drive the future success of our company.

The approach is kept under review to ensure it meets the needs of the business and shareholders. At the same time, we are conscious of the practices of other Australian companies and our local and overseas apparel competitors. This review process is essential to keep our remuneration offering relevant and competitive.

As a result of the most recent review, we are making a change to ensure appropriate rewards for performance in what remains an uncertain and volatile market. For some executives, where current contractual arrangements permit, we will be reducing the portion based on the long-term incentive and increasing the short-term incentive. A portion of the short-term incentive earned will now be delivered in shares (or a 'promise' of shares, depending on location) after two years.

Our approach to incentives will therefore consist of:

- A short-term incentive of a bonus if financial and non-financial performance targets are achieved each year. Part of the bonus will be paid in cash and a portion in shares (or a 'promise' of shares, depending on location) after two years.
- A long-term incentive that provides either shares (or a 'promise' of shares depending on location). The shares are only earned if earnings per share targets are met.

In addition, the one-off share option plan for the five most senior executives continues to be in place. The plan's focus is shareholder returns and retention over a five-year period to 2013. The plan only rewards if challenging shareholder return growth targets are met and Billabong's return is in the top half of companies in the ASX 100.

The review also considered the overall remuneration opportunity available. Based on the findings, overall executive remuneration opportunities will increase for 2010/11 to reflect a shortfall relative to other Australian and overseas executives and the importance of the executive teams' value and contribution to Billabong. Billabong is consistently recognised as one of the best performing pure boardsports company globally and has developed one of the strongest portfolios of youth brands focussing on the action sports sector.

This year's outcomes

In terms of the year just completed, the executives have performed well under difficult market conditions. The reward potential of the long-term incentive plan was significantly impacted by the severity of the global financial crisis. In order to keep executives motivated, the Board focused attention on the short-term incentive targets (KPI's). The executives were set challenging KPI's based around achieving budgeted constant currency Net Profit After Tax (NPAT) and working capital targets, supply chain and operational improvements and other key business drivers. The Board also introduced an 'over performance' short-term incentive if specific additional financial achievements were reached. The executives performed well against the targets set and most of their KPI's were met however no 'over performance' targets were achieved.

In terms of long-term performance, the plan which was tested this year did not meet its targets and all awards made will not vest and will be forfeited. This is the second year where the long-term performance hurdles were not met and shares did not vest.

Inside our report we have added disclosure regarding the actual amounts earned by executives (in addition to the accounting value of remuneration). This is a voluntary additional disclosure (recommended by the Productivity Commission). We advised in last year's Remuneration Report that the Company had implemented a salary freeze on executive remuneration for the 2009/10 financial year. The table shows that remuneration earned in 2009/10 increased from the prior year. This increase was attributable to the performance against the short-term incentive targets noted above.

Our non-executive directors

The directors receive a base fee plus a fee for the committees of which they are members. We set these fees based on fees paid by similarly sized Australian companies.

The total amount that we pay to directors was approved by shareholders in 2005. This year, we are seeking approval from you to increase this pool. The new pool will provide us with flexibility over the next few years to make additions to the Board and periodically revise fee levels based on market rates.

We trust that the above provides you with a useful summary of our approach to ensuring we motivate and retain the required senior talent for our business. I look forward to any questions you may have at our Annual General Meeting.

Yours faithfully,

Margaret Jackson
Chair of the Human Resources and Remuneration Committee

Contents of this Remuneration Report (Audited)

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

The remuneration report is set out under the following main headings:

A Executive remuneration policy
B Overview of incentive plans
C Remuneration outcomes for executives during the year, including an overview of the link between reward and performance
D Summary of executive contracts
E Non-executive Director fee policy and detail of fees paid during the year
F Additional statutory disclosures

A note regarding the scope of this report

As required, the report provides detail in relation to Key Management Personnel ("KMP") and the five highest paid executives of the Group. The KMP are the Executive Directors, the Non-Executive Directors and certain executives that either report directly to the Chief Executive Officer or the General Manager of Billabong USA being:

Name	*Position*	*Employer*
F. Fogliato	General Manager, Billabong Europe	GSM (Europe) Pty Ltd
C. Kypriotis	General Manager, Billabong South Americas	GSM Brasil Ltda
S. North	General Manager, Billabong Australasia	GSM (Operations) Pty Ltd
J. Schillereff	President, Element Skateboards, Inc	Element Skateboards, Inc
C. White	Chief Financial Officer	GSM (Operations) Pty Ltd

In addition, the following person must be disclosed under the *Corporations Act 2001* as they are among the five highest remunerated Group executives:

Name	*Position*	*Employer*
E. Leasure	President, Quiet Flight	GSM Investments Ltd

Remuneration report (continued)

A. Executive remuneration policy

Governance and objectives

The Group's executive remuneration policy and frameworks are developed by the Human Resource and Remuneration Committee and approved by the Board. Input and guidance is provided by external consultants and management as appropriate. The Corporate Governance Statement provides further information on the role of this committee.

The overall aim of the Group's executive remuneration policy and framework is to retain the executive team and motivate them to drive the future success of the Group. To achieve this, the Group aims to provide market competitive reward opportunities to executives through market competitive fixed remuneration and an incentive framework that rewards appropriately for the results delivered and is aligned to the creation of value for shareholders. The policy and framework is kept under review to ensure it continues to meet the needs of the business and shareholders.

Our remuneration principles

- Provide a market competitive reward opportunity;
- Apply performance targets that take into consideration the Group's strategic objectives, business plan performance expectations and deliver rewards commensurate for achieving these objectives and targets;
- Ensure executives are able to have an impact on the achievement of performance targets;
- Align executive remuneration with the creation of shareholder value through providing a portion of the reward package as equity and using performance hurdles linked to shareholder return;
- Encourage the retention of executives and senior management who are critical to the future success of the Group; and
- Consider market practice and shareholder views in relation to executive remuneration, whilst ensuring that executive remuneration meets the commercial requirements of the Group.

Our approach to setting remuneration levels

The Committee considers the available market data for comparable roles both within general industry and within the apparel sector (domestically and globally). The predominant focus is placed on market rates of pay in the executives' country of location. Identifying appropriate matches is challenging and is further complicated by the fact that not all of our competitors are listed and therefore market data is not readily available.

When positioning against the available matches, the Committee generally aims to provide fixed remuneration at the median of the relevant market with a total remuneration opportunity at around the 75th percentile of the market.

Remuneration levels are reviewed annually and upon promotion. In 2009/10, a salary freeze was implemented.

Remuneration report (continued)

A. Executive remuneration policy (continued)

The components of Billabong executive remuneration

Component	Purpose
Fixed remuneration	For the completion of day-to-day accountabilities and behaving in accordance with the Group's culture and values.
Short-term incentive plan	To reward for meeting personal key performance indicators, achieving the Group's overall performance against the annual budget and regional budget expectations (if applicable to the role). For the financial year 2010/11, a short-term incentive deferral is being implemented. A portion of the incentive earned will be delivered as equity which is deferred for 2 years. Due to current contractual arrangements the deferral will not be implemented for all executives.
Executive Performance Share Plan	*The plan has two variants. Tier 1 applies to the five most senior executives, while Tier 2 applies to all other plan participants.* Tier 1: To provide an equity-based reward opportunity to executives based on the Group's three-year earnings per share performance. Tier 2: To provide an equity-based retention opportunity based on continued service.

In addition, a one-off grant was made under the Executive Performance and Retention plan in the 2008/09 year. The purpose of this plan was to reward and retain selected executives over a five year period to the 2013/14 year for growing the market value of the Group and delivering returns to shareholders.

The mix of fixed and variable ('at risk') remuneration

The framework provides a mix of fixed and variable ('at risk') remuneration. As executives gain seniority within the Group, the balance of this mix shifts to a higher proportion of variable rewards to ensure the executive's total remuneration is linked to performance.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	**Fixed remuneration**	**At risk – Short-Term Incentives**	**At risk – Long-Term Incentives ***
Executive Directors			
D. O'Neill *Chief Executive Officer*	44%	41%	15%
P. Naude *General Manager Billabong USA*	50%	33%	17%
Other Key Management Personnel			
F. Fogliato	54%	29%	17%
C. Kypriotis	59%	35%	6%
S. North	54%	26%	20%
J. Schillereff	80%	10%	10%
C. White	56%	26%	18%
Other Group Executives			
E. Leasure	81%	15%	4%

* Long-Term Incentives include options and rights. The percentages disclosed reflect the accounting charge recognised in the Group's income statement.

As noted in the Chair's letter, as a result of the most recent review, for some executives we are reducing the portion based on the long-term incentive and increasing the weighting of the short-term incentive with a deferral into shares.

Remuneration report (continued)

A. Executive remuneration policy (continued)

Policy regarding mitigating the risk of any equity-based incentives

Under the Group's Share Trading Policy, executives are prohibited from entering any personal transactions that reduce or eliminate the risk associated with equity-based incentives. Where an executive is in breach of this policy, the awards shall be forfeited or lapse as the case may be.

B. Overview of incentive plans

Short-term incentive plan

The short-term incentive (STI) plan delivers an annual cash reward based on the following performance hurdles measured in constant currency terms:

Executive	Performance hurdles
Chief Executive Officer and Chief Financial Officer	The Group NPAT performance, the Group working capital as a percentage of sales and personal performance objectives.
Regional General Managers	The Group NPAT performance, regional EBIT performance, regional working capital as a percentage of sales and personal performance objectives.
Other Senior Executives	Regional EBIT performance and personal performance objectives.

The performance hurdles were selected to focus executives on the strategic aims of the business, provide a line of sight (i.e. performance measures that they can impact through their performance) and ensure variable reward is only achieved when value has been created for shareholders.

Each executive has a target and a maximum opportunity that can be earned each year, subject to performance against the measures relevant to their role.

In accordance with the Human Resource and Remuneration Committee charter, subject to the Human Resource and Remuneration Committee's review of performance against each executive's performance targets, all bonuses are paid in early September of the following financial year.

Commencing for the financial year 2010/11, an STI deferral is being introduced. The STI deferral is being introduced as part of a change to ensure appropriate rewards for performance in what remains a volatile market. A portion of between 20% to 30% of the incentive earned will be deferred into equity. This will either be in the form of shares or rights depending on the executives' location (due to tax implications). The deferred equity will vest to participants after a period of 2 years. Due to current contractual arrangements the deferral will not be implemented for all executives.

Executive Performance Share Plan

The Executive Performance Share Plan delivers remuneration to executives in the form of equity-based reward opportunities. The aim of the plan is to focus executives on the Group's long-term performance. The plan was approved by shareholders at the 2004 Annual General Meeting and the grants to the Executive Directors are approved annually.

The plan awards either shares or conditional rights[1], subject to the tax implications in the relevant jurisdiction:

- Shares: An executive awarded shares is not legally entitled to shares in the Company unless the relevant performance and service conditions are achieved, at which point the shares vest. However, the executive can vote and receive dividends in respect of performance shares allocated to them during the vesting period.
- Conditional rights: An executive awarded conditional rights is not legally entitled to shares in the Company unless the relevant performance and service conditions are achieved. Once the rights vest, each right entitles the executive to receive one share in the Company.

[1] Note that for the purposes of the remuneration tables in this report, shares and conditional rights are both referred to as "rights".

Remuneration report (continued)

B. Overview of incentive plans (continued)

There are two variations of the plan. Tier 1 applies to the five most senior executives, while Tier 2 applies to all other plan participants. The Tier 1 plan has an earnings per share (EPS) performance hurdle and vests after three years to the extent the hurdle is met. The Tier 2 plan is focused on retention and vests after two years subject to continued service.

Detail regarding the Tier 1 performance period and hurdles

The Committee selected EPS as the appropriate hurdle as the plan is intended to focus the executives on the long-term (three year) earnings performance of the Group.

Awards vest on the third anniversary of grant only if the EPS performance hurdles are satisfied in the relevant performance period. The performance periods for outstanding awards are summarised in the table below:

Grant	Performance period
2007/08	2006/07 (base year EPS) to 2009/10
2008/09	2007/08 (base year EPS) to 2010/11
2009/10	2008/09 (base year EPS) to 2011/12

Each year, prior to awards being granted, the Committee considers the market environment, the Group’s business strategy and performance expectations and shareholder expectations and sets the performance targets for the awards to be granted that year. No retesting is permitted.

The targets and vesting schedule for the 2007/08 and the 2008/09 awards was disclosed in prior year Remuneration Reports. For the awards granted during 2009/10, the targets and vesting schedule were as follows:

- Minimum vesting (50%) for 6% EPS compound annual growth; and
- Maximum vesting (100%) for 10% or greater EPS compound annual growth.

Details of the performance targets for the 2010/11 awards are set out in the Notice of Meeting where we are seeking approval for the awards to the Executive Directors, Derek O’Neill and Paul Naude. The performance targets are the same for all Tier 1 participants and are unchanged from 2009/10.

At the end of the relevant performance period, the Human Resource and Remuneration Committee consider the EPS performance of the Group on both a reported and constant currency basis and determines to what extent the awards should vest based on the above vesting conditions.

For all executives, except those based in France, the vested shares are subject to a sales restriction which requires the individual to seek approval from the Board prior to sale. For the executive based in France, due to the social security and taxation laws, an additional 24 month restriction period is imposed.

Executive Performance and Retention Plan

The establishment of the Executive Performance and Retention Plan was approved at the Annual General Meeting (“AGM”) of the Company held on 28 October 2008. The plan is designed to retain and effectively reward selected executives over a five year period for growing the market value of the Company and delivering returns to shareholders.

Under the Plan, the five most senior executives were granted options. Options granted under the Plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share upon receipt of funds. The options will only vest, and become exercisable, if certain performance hurdles are met and if the individual is still employed by the Group at the end of the vesting period. Once vested, the executive has two years to pay an exercise price to acquire the shares. Shareholder approval was obtained at the 2009 AGM to change the exercise price of options granted to take into account the Company’s entitlement offer in May 2009.

Remuneration report (continued)

B. Overview of incentive plans (continued)

The performance hurdles that determine whether awards vest are based on the Company's Total Shareholder Return (TSR) performance. TSR measures growth in the Company's share price, together with the value of dividends received during the relevant period. Two TSR performance hurdles must be achieved in order for awards to vest:

- A 'gateway' relative TSR hurdle of above median of a comparator group of companies over the five year performance period, measured from start of performance period to the end of year five; and

- Absolute TSR hurdle with a 120% target (equivalent to approximately 12.8% share price growth p.a. over five years) to be achieved at any point over the five year performance period.

The comparator group for the relative TSR comparator group is the constituents of the S&P/ASX 100 Index at the start of the performance period (excluding companies in the Global Industry Classification Standard (GICS) name codes: 'Oil, Gas and Consumable Fuels' and 'Metals and Mining').

The use of a relative TSR hurdle gateway directly aligns executive reward and shareholder return by ensuring that executives are only rewarded for the absolute TSR performance if they are also in the "top half" of ASX 100 (excluding certain industries) performers at the time performance is tested.

The use of the stretch absolute TSR performance target focuses executives on significantly growing the business in line with the strategic plan and generating strong returns for shareholders.

An early banking opportunity is also provided to executives, where the absolute and relative performance hurdles are satisfied. However, in order for the options to vest, the continued employment condition must be satisfied. The banking approach allows for executives to be rewarded for "early" high TSR performance. However, due to the continued employment requirement and the delivery vehicle being options, this Plan encourages sustained share price performance throughout the five year period and enhances the retention impact of the awards.

The performance hurdles and the early banking opportunities are summarised in the table below:

Date	Year 3 test 30 June 2011	Year 4 test 30 June 2012	Year 5 test 30 June 2013
Absolute TSR	80% TSR achieved at any time during the prior three years.	100% TSR achieved at any time during the prior four years.	120% TSR achieved at any time during the prior five years.
Relative TSR	Above median TSR performance achieved against comparator group of companies.	Above median TSR performance achieved against comparator group of companies.	Above median TSR performance achieved against comparator group of companies.
Banking	1/3 of total options.	2/3 of total options.	All options earned.

Additional equity arrangements for Billabong employees

In order to encourage equity participation and an ownership culture, the Group operates a Tax Exempt Employee Share Plan and Tax Deferred Employee Share Plan for Australian based employees with at least 12 months service. The executives are eligible to participate in these plans. The plans operate as follows:

- Tax Exempt Employee Share Plan: Eligible employees can purchase a maximum of $1,000 of ordinary shares in the Company (which includes a Group contribution of $200) at a discount by voluntarily sacrificing either their base salary or bonus on a pre-tax basis.

- Tax Deferred Employee Share Plan: Eligible employees can purchase shares in the Company, at market value, by voluntarily sacrificing their base salary and/or bonus on a pre-tax basis. A minimum contribution amount of $2,000 applies to the purchase of shares (with a maximum of up to $4,800), with the Group contributing $200 towards shares in the Company.

Remuneration report (continued)

C. Remuneration outcomes for executives during the year, including an overview of the link between reward and performance

Overview of the link between reward and performance

Two of the principles underlying our executive remuneration framework relate directly to how performance is applied:

- Apply performance targets that take into consideration the Group's strategic objectives, business plan performance expectations and deliver rewards commensurate for achieving these objectives and targets; and
- Align executive remuneration with the creation of shareholder value through providing a portion of the reward package as equity and using performance hurdles linked to shareholder return.

As described in the "Overview of Incentive Plans", these two principles were applied directly in the design of our framework.

Overall remuneration earned for 2009/10

In terms of the year just completed, the executives have performed well under difficult market conditions. The reward potential of the long-term incentive plan was significantly impacted by the severity of the global financial crisis. In order to keep executives motivated, the Board focused attention on the short-term incentive targets (KPI's). The executives were set challenging KPI's based around achieving budgeted constant currency NPAT and working capital targets, supply chain and operational improvements and other key business drivers. The Board also introduced an "over performance" short-term incentive if specific additional financial achievements were reached.

In terms of the short-term incentive outcomes, the executives performed well against the targets set and most of their KPI's were met however no "over performance" targets were achieved.

In terms of the long-term incentives, the relevant metrics are EPS (for the Executive Performance Share Plan) and absolute and relative Total Shareholder Return, which are based on share price and dividends (for the Executive Performance and Retention Plan). Against these measures, despite the Group performing well this year in a challenging market environment, neither of the two long-term incentive plans met their performance hurdles and no awards vested to participants:

- The Executive Performance Share Plan grant made in 2007/08 was tested. Compound EPS growth for the period did not meet the threshold performance target of 10% p.a. No reward has been earned and the awards lapse.

- The one-off Executive Performance and Retention Plan grant was made in 2008. The plan is currently in the first three year window and the target for vesting the first third of the award is an absolute total shareholder return of 80%. This target has not yet been met and no amounts have yet vested.

The following table C.1 summarises the remuneration earned by each executive (i.e. the cash values received and the value of shares that vested during the year). We note that these values differ from the accounting values presented in the subsequent table C.2.

Remuneration report (continued)

C. Remuneration outcomes for executives during the year, including an overview of the link between reward and performance (continued)

Table C.1:

Name		Base salary $'000	Short-term incentive earned $'000	Non-monetary benefits $'000	Long-term incentives (value vested during the year) $'000	Super-annuation $'000	Total Remuneration realised $'000
D. O'Neill	**2010**	1,142	1,119	5	---	14	2,280
	2009	*1,144*	*578*	*3*	*525**	*13*	*2,263*
P. Naude ^	**2010**	1,036	695	16	---	3	1,750
	2009	*1,208*	*401*	*19*	*525**	*4*	*2,157*
F. Fogliato ^	**2010**	521	284	10	---	---	815
	2009	*611*	*317*	*13*	*175**	---	*1,116*
C. Kypriotis ^	**2010**	374	248	24	---	19	665
	2009	*386*	*169*	*22*	*122**	*18*	*717*
E. Leasure ^	**2010**	566	110	15	---	---	691
	2009	*687*	*11*	*17*	---	---	*715*
S. North	**2010**	570	277	4	---	14	865
	2009	*564*	*200*	*5*	*257**	*14*	*1,040*
J. Schillereff ^	**2010**	505	68	16	---	3	592
	2009	*589*	*53*	*18*	*90**	*3*	*753*
C. White	**2010**	667	324	2	---	14	1,007
	2009	*661*	*334*	*2*	*315**	*14*	*1,326*

* Based on 2005/06 grant which was tested based on financial performance to 30 June 2008 which vested at 87.5% in the financial year ended 30 June 2009 assuming a share price of $13.18 (price when awarded).

^ Remuneration impacted by exchange rate fluctuations.

Five year performance and reward relationship

The overall level of executive reward takes into account the performance of the Group over a number of years. Over the past five years, the Group's profit from ordinary activities after income tax has grown at a compound rate of 3.1% per annum, and shareholder wealth has grown at a compound rate of (5.1%) per annum, assuming all dividends are re-invested back into Billabong International Limited shares on the payment date. During the same period, executive remuneration has grown at a compound rate of 1.4% per annum.

Remuneration disclosure for 2009/10 (and comparatives)

The following Table C.2 sets out the remuneration for executives based on the accounting disclosure requirements. We note that the share-based payments are based on the accounting expense incurred by the Company for the year and not the value received by the executive. Further total remuneration, is based on the inclusion of the accounting value for the share-based payments. The actual values that vested to individuals in the year were disclosed in Table C.1 above.

Remuneration report (continued)

C. Remuneration outcomes for executives during the year, including an overview of the link between reward and performance (continued)

Table C.2:

Name		Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total Remuneration $'000
		Cash salary $'000	Cash bonus $'000	Non-monetary benefits $'000	Super-annuation $'000	Long service leave $'000	Options * $'000	Rights $'000	
Executive Directors									
D. O'Neill	**2010**	1,142	1,119	5	14	39	286	146**	2,751
	2009	*1,144*	*578*	*3*	*13*	*19*	*190*	*(249)****	*1,698*
P. Naude	**2010**	1,036	695	16	3	---	238	126**	2,114
	2009	*1,208*	*401*	*19*	*4*	---	*159*	*(227)****	*1,564*
Other Key Management Personnel									
F. Fogliato ^	**2010**	521	284	10	---	---	91	72**	978
	2009	*611*	*317*	*13*	---	---	*53*	*(111)****	*883*
C. Kypriotis ^	**2010**	374	248	24	19	---	---	37**	702
	2009	*386*	*169*	*22*	*18*	---	---	*(66)****	*529*
S. North ^	**2010**	570	277	4	14	---	143	73**	1,081
	2009	*564*	*200*	*5*	*14*	*8*	*95*	*(120)****	*766*
J. Schillereff	**2010**	505	68	16	3	---	---	63**	655
	2009	*589*	*53*	*18*	*3*	---	---	*(8)****	*655*
C. White ^	**2010**	667	324	2	14	9	143	84**	1,243
	2009	*661*	*334*	*2*	*14*	*4*	*95*	*(146)****	*964*
Other Group Executives									
E. Leasure ^	**2010**	566	110	15	---	---	---	31**	722
	2009	*687*	*11*	*17*	---	---	---	*16****	*731*
Total	**2010**	5,381	3,125	92	67	48	901	632**	10,246
	2009	*5,850*	*2,063*	*99*	*66*	*31*	*592*	*(911)****	*7,790*

^ Denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001.*

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

** Remuneration in the form of rights relates to the accounting charge recognised in the Group's income statement in respect of the Executive Performance Share Plan. The accounting charge reflects at this point in time the most probable likelihood of the 2008/09 and 2009/10 grants vesting to the individual. It should also be noted, the 2007/08 grant was tested based on financial performance to 30 June 2010, the performance hurdles were not achieved and therefore no shares will vest.

*** Remuneration in the form of rights includes negative amounts for the write back in the accumulated expense previously recognised in the Group's income statement in respect of the Executive Performance Share Plan as a result of performance hurdles in relation to certain components of that Plan not being met or which are unlikely to be met. In particular, the 2006/07 grant was tested based on financial performance to 30 June 2009, the performance hurdles were not achieved and therefore no shares vested.

Remuneration report (continued)

D. Summary of executive contracts

The executive contracts set out remuneration details and other terms of employment for the executives. The contracts provide for base salary inclusive of superannuation (which is reviewed annually by the Human Resource and Remuneration Committee), performance-related cash bonuses, other benefits including health insurance, car allowances and tax advisory services, and participation, when eligible, in long-term incentive plans.

Key provisions of the executive contracts relating to remuneration are set out below. The contractual terms vary due to the timing of contracts, individual negotiations and different local market practices.

Term of contract	• The majority of executives have on-going contracts. • The exception is the President of Quiet Flight who has a fixed term contract until 30 June 2012.
Notice period required by executive	• 18 months: GM Billabong USA • 12 months: Chief Executive Officer, GM Billabong Australasia, President Element Skateboards • 6 months: GM Billabong South Americas, Chief Financial Officer • 3 months: GM Billabong Europe
Termination provisions (other than for gross misconduct)	• Two times annual base salary: Chief Executive Officer • One times annual base salary plus the performance bonus for the year of termination: GM Billabong USA, President Element Skateboards • One times annual base salary plus the average performance bonus over the prior two years: GM Billabong Europe • One times annual base salary plus the performance bonus for the year of termination pro-rata to the date of termination: President of Quiet Flight • One times annual base salary: GM Billabong South Americas, GM Billabong Australasia, Chief Financial Officer
Executive Performance Share Plan	• If cessation of employment is within the first 12 months of the three year performance period then awards will lapse. • If the participant leaves after 12 months of the performance period but before the end of the performance period, vesting (if any) will depend upon the circumstances of them ceasing employment. Any vesting permitted will be a pro-rata amount based on performance and the proportion of the performance period they were employed.
Executive Performance and Retention Plan	• If the participant leaves before the end of the performance period, vesting (if any) will depend upon the circumstances of them ceasing employment. Any vesting will be determined by the Board having regard to performance and the proportion of the performance period they were employed.

In November 2009, the Federal Government finalised the revised termination benefit cap legislation. Under this law, any new or substantially varied contracts would require termination benefits to be approved by shareholders where the benefit exceeds one times the individual's "base salary". The definition of base salary is broader than the base salary disclosed in the remuneration tables C.1 and C.2 and includes all elements regarded as non-performance based.

No new contracts have been entered into, nor have any new executives joined the Group since this new legislation was introduced. The legislation does not therefore apply to the current executives' contracts. The Committee will continue to review the approach to contractual entitlements based on the new legislation.

Remuneration report (continued)

E. Non-executive Director fee policy and detail of fees paid during the year

Our approach to setting fees

Non-Executive Directors receive a base fee plus a fee for the committees of which they are members. These fees are based on fees paid by similarly sized Australian companies and take into account the roles and responsibilities placed on Non-Executive Directors.

Non-Executive Directors do not receive equity based awards or retirement benefits (other than statutory superannuation payments).

Approved fee pool

Non-Executive Directors' fees are determined within a maximum aggregate Directors' fee pool limit. The pool currently stands at $1,200,000 and was approved by members on 21 October 2005. Our current fees use the majority of this approved pool. This year, we are seeking approval to increase this pool to $1,500,000. The new pool will provide us with flexibility over the next few years to make an addition to the Board and periodically revise fee levels based on market rates. Details of the increase in this pool are set out in the Notice of Meeting.

Base and Committee fee policy

The following table summarises the annual current base fees and the additional fees paid for membership or chairmanship of the relevant Board committees. The fees are exclusive of superannuation.

Chairman fee	$325,000
Base fee for directors	$130,000
Additional committee chair fees – Audit	$25,000
Additional committee chair fees – HR & Remuneration	$15,000

Fees paid during 2009/10 (and comparatives)

Table E.1

Name		Fees $'000	Non-monetary benefits $'000	Superannuation $'000	Long service leave $'000	Total Remuneration $'000
E.T. Kunkel	**2010**	325	2	14	---	341
	2009	*333*	*2*	*13*	---	*348*
A.G. Froggatt	**2010**	130	2	10	---	142
	2009	*130*	*2*	*12*	---	*144*
M.A. Jackson	**2010**	145	2	13	---	160
	2009	*145*	*2*	*13*	---	*160*
F.A. McDonald	**2010**	155	2	14	---	171
	2009	*155*	*2*	*14*	---	*171*
G.S. Merchant	**2010**	130	2	12	---	144
	2009	*130*	*2*	*12*	---	*144*
C. Paull	**2010**	130	2	12	---	144
	2009	*130*	*2*	*12*	---	*144*
Total	**2010**	1,015	12	75	---	1,102
	2009	*1,023*	*12*	*76*	---	*1,111*

Remuneration report (continued)

F. Additional statutory disclosures

Share-based compensation

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

Name	Number of rights awarded during the year 2010	Number of rights vested during the year 2010
Executive Directors		
D. O'Neill	88,170	---
P. Naude	76,262	---
Other Key Management Personnel		
F. Fogliato	43,284	---
C. Kypriotis	22,443	---
S. North	44,085	---
J. Schillereff	8,014	---
C. White	50,956	---
Other Group Executives		
E. Leasure	4,008	---

The assessed fair value at grant date of rights granted under the Billabong Executive Performance Share Plan during the year ended 30 June 2010 was $10.51 per right (2009: $12.91). The fair value at grant date is determined by reference to the Company's share price at grant date, taking into account the terms and conditions upon which the rights were granted.

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

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

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

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

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

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

Remuneration report (continued)

F. Additional statutory disclosures (continued)

Details of remuneration: cash bonuses and options

For each cash bonus paid, the percentage of the available bonus that was earned or paid, in the financial year, and the percentage that was forfeited because performance criteria were not met are set out below.

Details of cash bonuses, performance shares and conditional rights

	Cash bonus		Performance shares and conditional rights				
Name	Earned or Paid	Forfeited	Year granted	Vested	Forfeited	Financial years in which may vest	Maximum total value of grant yet to vest * $'000
D. O'Neill	42%	58%	2010	---	---	30 June 2013	781
			2009	---	---	30 June 2012	926
			2008	---	---	30 June 2011	882
			2007	---	100%	30 June 2010	---
P. Naude	35%	65%	2010	---	---	30 June 2013	675
			2009	---	---	30 June 2012	801
			2008	---	---	30 June 2011	763
			2007	---	100%	30 June 2010	---
F. Fogliato	33%	67%	2010	---	---	30 June 2013	383
			2009	---	---	30 June 2012	454
			2008	---	---	30 June 2011	433
			2007	---	100%	30 June 2010	---
C. Kypriotis	75%	25%	2010	---	---	30 June 2013	199
			2009	---	---	30 June 2012	236
			2008	---	---	30 June 2011	225
			2007	---	100%	30 June 2010	---
E. Leasure	50%	50%	2010	---	---	30 June 2012	30
			2009	---	---	30 June 2011	7
			2008	---	---	30 June 2011	---
S. North	31%	69%	2010	---	---	30 June 2013	390
			2009	---	---	30 June 2012	463
			2008	---	---	30 June 2011	441
			2007	---	100%	30 June 2010	---
J. Schillereff	60%	40%	2010	---	---	30 June 2012	59
			2009	---	---	30 June 2011	15
			2008	---	---	30 June 2011	131
			2007	---	100%	30 June 2010	---
C. White	31%	69%	2010	---	---	30 June 2013	451
			2009	---	---	30 June 2012	535
			2008	---	---	30 June 2011	510
			2007	---	100%	30 June 2010	---

* The maximum total value of grant yet to vest and yet to be expensed. The figures above are calculated as the amount of the grant date fair value of the performance shares and conditional rights and assuming 100% of the award vests.

Remuneration report (continued)

F. Additional statutory disclosures (continued)

Details of options

	Options				
Name	Year granted	Vested %	Forfeited %	Financial years in which may vest	Maximum total value of grant yet to vest * $'000
D. O'Neill	2009	---	---	30 June 2014	952
P. Naude	2009	---	---	30 June 2014	793
F. Fogliato	2009	---	---	30 June 2014	312
S. North	2009	---	---	30 June 2014	476
C. White	2009	---	---	30 June 2014	476

* The maximum total value of grant yet to vest and yet to be expensed. The figures above are calculated as the amount of the grant date fair value of the options and assuming 100% of the award vests.

No options were granted, vested or forfeited during the year ended 30 June 2010.

Shares under option

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

	Number	Grant date	Issue price of shares	Expiry date
Executive Performance and Retention Plan	1,782,183	31 October 2008	$11.08	31 October 2015
Executive Performance and Retention Plan	314,503	24 November 2008	$10.80	24 November 2015
Total	**2,096,686**			

Performance shares and conditional rights

Performance shares and conditional rights awarded under the Plan at the date of this report are as follows:

Type of right	Balance	Grant date	Performance/service determination date
Performance Shares	547,914	1 November 2007	30 June 2010
Conditional Rights	96,429	1 November 2007	30 June 2010
Performance Shares	310,802	1 September 2008	1 September 2010
Conditional Rights	70,398	1 September 2008	1 September 2010
Performance Shares	254,504	1 September 2008	30 June 2011
Conditional Rights	35,200	1 September 2008	30 June 2011
Performance Shares	396,326	1 December 2009	1 September 2011
Conditional Rights	104,971	1 December 2009	1 September 2011
Performance Shares	312,947	1 December 2009	30 June 2012
Conditional Rights	43,284	1 December 2009	30 June 2012
Total	**2,172,775**		

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

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

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

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

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

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

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

	Consolidated	
	2010 $'000	2009 $'000
PricewaterhouseCoopers Australian firm:		
International tax consulting together with separate tax advice on acquisitions	814	3,204
General accounting advice	67	---
Related practices of PricewaterhouseCoopers Australian firm	1,739	1,571
Total remuneration for non-audit services	2,620	4,775

Amounts paid or payable by the consolidated entity for audit and non-statutory audit services are disclosed in note 31 to the full financial statements.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 30.

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

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

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

Ted Kunkel
Chairman

Gold Coast, 20 August 2010

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Auditor's independence declaration

As lead auditor for the audit of Billabong International Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

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

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

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

Robert Hubbard
Partner
PricewaterhouseCoopers

Brisbane, 20 August 2010

The Board of Directors is responsible to shareholders for the performance of the Group and believes that high standards of corporate governance underpin the Company's objective of maximising returns to shareholders. The Board is committed to the highest level of governance and endeavours to foster a culture that rewards ethical standards and corporate integrity. As required by the ASX Listing Rules this statement sets out the extent to which the Company has complied with the ASX Recommendations during the financial year ended 30 June 2010. The Board of Directors considers that the Group's corporate governance practices comply with the ASX Recommendations.

PRINCIPLE 1: Lay solid foundations for management and oversight

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

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

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

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

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

The Board set, on an annual basis, financial and non-financial performance hurdles for the CEO and senior executives and performance is assessed against these performance hurdles. A performance assessment for the CEO and senior executives last took place in August 2010.

PRINCIPLE 2: Structure the Board to add value

During the financial year the Board comprised six Non-Executive Directors (including the Chairman) and two Executive Directors (CEO and General Manager North America). The names, skills and experience of the Directors in office at the date of this Statement, and the period of office of each Director, are set out in the Directors' Report.

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

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

When determining the independence of Non-Executive Directors consideration is given to whether the Non-Executive Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or has previously been employed in an executive capacity by the Company, and there has not been a period of at least three (3) years between ceasing such employment and serving on the Board;
- has within the last three (3) years been a principal of a material professional advisor or a material consultant to the Company, or an employee materially associated with the service provided;

- is a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has a material contractual relationship with the Company other than as a Director.

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

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

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

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

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

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

Nominations Committee
Committee Members

Ted Kunkel (Chairman)
Tony Froggatt
Margaret Jackson
Allan McDonald
Gordon Merchant
Colette Paull

The Nominations Committee consists only of Non-Executive Directors and a majority of the members of the Committee are independent. The Chairman of the Committee is a Non-Executive Director.

The main functions of the Committee are to:

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

When a new Director is to be appointed, the Committee reviews the range of skills, experience and expertise on the Board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience. Where necessary, advice is sought from independent search consultants. The full Board then appoints the most suitable candidate who must submit themselves to shareholders for election at the first Annual General Meeting following their appointment.

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

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

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

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

Board Performance
The Board undertakes an annual self assessment of the performance of the Board as a whole, its Committees, the Chairman, individual Directors and governance processes that support Board work. Performance of individual Directors is assessed against a range of dimensions including the ability of the Director to consistently create shareholder value, to contribute to the development of strategies and risk identification, to provide clarity of direction to senior management, to listen to the views of fellow Directors and members of management and key third party stakeholders and to provide the time commitment to ensure the discharge of duties and obligations to the Company. The Chairman meets privately with each Director to discuss individual and collective performance of Directors.

PRINCIPLE 3: Promote ethical and responsible decision-making

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

Trading in Company Securities by Directors, senior executives and employees
The Company has a detailed securities trading policy which regulates dealings by Directors, senior managers and employees in shares, options and other securities issued in the Company.

A summary of the policy is as follows:

- dealings by Directors, senior managers, and nominated employees are confined to three trading windows which begin after two clear trading days have elapsed from the date of the half and full year profit announcements and date of the Annual General Meeting and continues for a period of thirty calendar days;
- Directors have entered into agreements to notify the Company within three days of any dealings in the Company securities;
- where a trade by a Director or associated Company is in excess of one million shares or represents more than 10% of that Director's then current securities holding, the Director has the responsibility to notify the Chairman at least 48 hours prior to engaging in any transaction;
- guidance is given to Directors that transactions in excess of one million shares should not be sold through normal day trading in order to minimise risk to the market price; and
- Executives are prohibited from hedging or otherwise reducing or eliminating the risk associated with long-term incentives such as unvested performance shares and options offered by the Company to the Executive.

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

Whistleblower Policy
A copy of the Whistleblower Policy is available on the Company's corporate website. The policy applies to all Company employees, contractors and consultants and is designed to protect individuals who, in good faith, report conduct which they reasonably believe to be corrupt, illegal or unethical on a confidential basis, without fear of reprisal, dismissal or discriminatory treatment.

PRINCIPLE 4: Safeguard integrity in financial reporting

Audit Committee
Committee Members

Allan McDonald (Chairman)
Tony Froggatt
Margaret Jackson
Ted Kunkel
Gordon Merchant
Colette Paull

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

The main functions of the Committee are to:

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

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

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

In fulfilling its responsibilities, the Audit Committee:

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

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

External Auditors
The external auditor (PricewaterhouseCoopers) has declared its independence to the Board through is representations to the Committee and provision of its Statement of Independence to the Board, stating that they have maintained their independence in accordance with the provisions of APES 110 – Code of Ethics for Professional Accountants and the applicable provisions of the *Corporations Act 2001*. It is PricewaterhouseCoopers' policy to rotate audit engagement partners on listed companies at least every five years, and in accordance with that policy a new audit engagement partner was introduced for the year ended 30 June 2007.

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

PRINCIPLE 5: Make timely and balanced disclosure

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

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

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

PRINCIPLE 6: Shareholder communication

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

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

The Billabong website maintains, at a minimum, information about the last three years' press releases or announcements.

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

PRINCIPLE 7: Recognise and manage risk

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

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

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

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

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

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

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

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

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

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

PRINCIPLE 8: Remunerate fairly and responsibly

Human Resource and Remuneration Committee
Committee Members

Margaret Jackson (Chairman)
Tony Froggatt
Ted Kunkel
Allan McDonald
Gordon Merchant
Colette Paull

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

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

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

In particular to:

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

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

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

Structure of Remuneration
Details of the nature and amount of each element of the remuneration for Directors and key Executives of the Company are set out in the 'Remuneration Report' section of the Directors' Report. The current maximum aggregate remuneration pool for Non-Executive Directors is currently $1,200,000 per annum which was approved by shareholders on 21 October 2005. Shareholders will be asked to approve an increase in Directors' Fees from $1,200,000 to $1,500,000.

There are no Directors' retirement benefits other than statutory superannuation.

Billabong International Limited

ABN 17 084 923 946

Contents

:: FINANCIAL REPORT 30 JUNE 2010

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

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

Billabong International Limited
1 Billabong Place
Burleigh Heads QLD 4220

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' report on pages 2 – 6, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 20 August 2010. The Company has the power to amend and reissue the financial report.

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

Income statement

For the year ended 30 June 2010 : :

	Notes	Consolidated 2010 $'000	2009 $'000
Revenue from continuing operations	5	1,487,527	1,674,434
Cost of goods sold	7	(675,533)	(780,436)
Other income	6	7,061	1,491
Selling, general and administrative expenses	7	(469,788)	(525,351)
Other expenses	7	(121,072)	(125,530)
Finance costs	7	(25,164)	(38,561)
Profit before income tax		203,031	206,047
Income tax expense	8	(57,865)	(53,208)
Profit for the year		145,166	152,839
Loss attributable to non-controlling interests		822	---
Profit for the year attributable to the members of Billabong International Limited		145,988	152,839

Earnings per share for profit attributable to the ordinary equity holders of the Company		Cents	Cents
Basic earnings per share	41	58.3	69.2
Diluted earnings per share	41	57.8	68.7

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

	Notes	Consolidated 2010 $'000	2009 $'000
Profit for the year		145,166	152,839
Other comprehensive income			
Changes in the fair value of cash flow hedges, net of tax	27(b)	11,304	(10,253)
Exchange differences on translation of foreign operations	27(b)	(14,486)	1,923
Net investment hedge, net of tax	27(b)	(16,981)	17,291
Other comprehensive (expense)/income for the year, net of tax		(20,163)	8,961
Total comprehensive income for the year		125,003	161,800
Loss attributable to non-controlling interests		822	---
Total comprehensive income for the year attributable to members of Billabong International Limited		125,825	161,800

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

Balance sheet

As at 30 June 2010 : :

	Notes	Consolidated 2010 $'000	2009 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	208,742	332,937
Trade and other receivables	10	398,378	405,155
Inventories	11	240,400	253,670
Current tax receivables		3,584	10,456
Other	12	27,581	18,563
Total current assets		878,685	1,020,781
Non-current assets			
Receivables	13	17,172	11,566
Property, plant and equipment	14	170,477	161,816
Intangible assets	15	1,118,308	999,491
Deferred tax assets	16	22,656	21,735
Other	17	3,021	5,123
Total non-current assets		1,331,634	1,199,731
Total assets		2,210,319	2,220,512
LIABILITIES			
Current liabilities			
Trade and other payables	18	315,545	277,947
Borrowings	19	20,525	10,031
Current tax liabilities	20	8,820	7,690
Provisions	21	9,889	13,483
Total current liabilities		354,779	309,151
Non-current liabilities			
Borrowings	22	404,933	547,872
Deferred tax liabilities	23	54,815	56,497
Provisions and other payables	24	22,271	21,330
Deferred payment	25	155,942	108,726
Total non-current liabilities		637,961	734,425
Total liabilities		992,740	1,043,576
Net assets		1,217,579	1,176,936
EQUITY			
Contributed equity	26	671,761	659,012
Treasury shares	27(a)	(30,767)	(27,295)
Option reserve	27(b)	7,844	2,519
Other reserves	27(b)	(62,369)	(32,480)
Retained profits	27(c)	630,290	575,180
Capital and reserves attributable to members of Billabong International Limited		1,216,759	1,176,936
Non-controlling interests		820	---
Total equity		1,217,579	1,176,936

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

Consolidated	Notes	Attributable to members of Billabong International Limited: Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 July 2008		316,317	(59,342)	538,128	795,103	---	795,103
Total comprehensive income for the year		---	8,961	152,839	161,800	---	161,800
Transactions with equity holders in their capacity as equity holders:							
Employee share options exercised	26(b)	39	---	---	39	---	39
Rights issue, net of transaction costs	26(b)	284,799	---	---	284,799	---	284,799
Dividend reinvestment plan issues	26(b)	57,857	---	---	57,857	---	57,857
Dividends paid	28	---	---	(115,787)	(115,787)	---	(115,787)
Treasury shares purchased by employee share plan trusts	27(a)	---	(7,194)	---	(7,194)	---	(7,194)
Option reserve in respect of employee share plan	27(b)	---	319	---	319	---	319
		342,695	(6,875)	(115,787)	220,033	---	220,033
Balance at 30 June 2009		659,012	(57,256)	575,180	1,176,936	---	1,176,936
Total comprehensive income for the year		---	(20,163)	145,988	125,825	(822)	125,003
Transactions with equity holders in their capacity as equity holders:							
Dividend reinvestment plan issues	26(b)	12,749	---	---	12,749	---	12,749
Dividends paid	28	---	---	(90,878)	(90,878)	---	(90,878)
Treasury shares purchased by employee share plan trusts	27(a)	---	(3,472)	---	(3,472)	---	(3,472)
Option reserve in respect of employee share plan	27(a)	---	5,325	---	5,325	---	5,325
Redemption option for non-controlling derivative	27(b)	---	(9,726)	---	(9,726)	---	(9,726)
Non-controlling interests on acquisition of subsidiary	35	---	---	---	---	1,642	1,642
		12,749	(7,873)	(90,878)	(86,002)	1,642	(84,360)
Balance at 30 June 2010		671,761	(85,292)	630,290	1,216,759	820	1,217,579

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

	Notes	Consolidated 2010 $'000	2009 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,551,174	1,706,459
Payments to suppliers and employees (inclusive of GST)		(1,299,033)	(1,447,870)
		252,141	258,589
Interest received		3,319	2,815
Other revenue		3,726	2,360
Finance costs		(22,774)	(37,205)
Income taxes paid		(49,165)	(50,874)
Net cash inflow from operating activities	39	187,247	175,685
Cash flows from investing activities			
Payments for purchase of subsidiaries and businesses, net of cash acquired	35	(49,591)	(143,760)
Payments for property, plant and equipment		(53,064)	(65,355)
Payments for intangible assets		(3,393)	(6,225)
Proceeds from sale of property, plant and equipment		284	97
Net cash outflow from investing activities		(105,764)	(215,243)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		---	325,154
Share issue and transaction costs		---	(8,219)
Payments for treasury shares held by employee share plan trusts		(3,472)	(7,194)
Proceeds from borrowings		698,832	714,688
Repayment of borrowings		(809,333)	(682,360)
Dividends paid	28	(78,129)	(92,196)
Net cash (outflow)/inflow from financing activities		(192,102)	249,873
Net (decrease)/increase in cash and cash equivalents		(110,619)	210,315
Cash and cash equivalents at the beginning of the year		332,937	125,852
Effects of exchange rate changes on cash and cash equivalents		(13,576)	(3,230)
Cash and cash equivalents at the end of the year	9	208,742	332,937

Financing arrangements 22
Non-cash investing and financing activities 40

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

Contents of the notes to the financial statements

Note 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report is for the consolidated entity consisting of Billabong International Limited and its subsidiaries (the “Group” or “consolidated entity”).

(a) Basis of preparation

The general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS).

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

Early adoption of standards
The Group has elected not to early apply accounting standards that are not applicable to the accounting period ended 30 June 2010.

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

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

Financial statement presentation
The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(b) Principles of consolidation

(i) *Subsidiaries*
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Billabong International Limited (the “Company” or “parent entity”) as at 30 June 2010 and the results of all subsidiaries for the year then ended.

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

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

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

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

Note 1. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

(c) Segment reporting

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

Change in accounting policy
The Group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in no change to the number of reportable segments presented, as the information used for internal reporting purposes is consistent with the prior years' reportable segment information. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. There has been no impact on the measurement of the Company's assets and liabilities.

(d) Foreign currency translation

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

Note 1. Summary of significant accounting policies (continued)

(ii) *Transactions and balances*
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

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

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

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

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

(e) Revenue recognition

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

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

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

(ii) *Interest income*
Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income over the discounted period.

(iii) *Royalty income*
Royalty income is recognised as it accrues.

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

Note 1. Summary of significant accounting policies (continued)

(f) Income tax

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

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

Investment allowances
Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. Any unclaimed tax credits may be carried forward as deferred tax assets.

(g) Leases

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

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 33). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

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

Note 1. Summary of significant accounting policies (continued)

(h) Business combinations

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

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

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

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

Change in accounting policy
A revised AASB 3 *Business Combinations* became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as a payable are subsequently remeasured through the income statement. Under the Group's previous policy, contingent payments were only recognised when payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition. The Group continues to account for business combinations which occurred pre 1 July 2009 under the previous AASB 3 *Business Combinations* standard.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. The Group has chosen to recognise the non-controlling interest at the proportionate share of the net identifiable assets of Surfstitch Pty Ltd for this acquisition.

If the Group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

Note 1. Summary of significant accounting policies (continued)

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

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

(k) Trade receivables

All trade receivables are recognised at the date they are invoiced, initially at fair value and subsequently measured at amortised cost, and are principally on 30 day terms.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

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

(l) Inventories

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

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

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

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

Note 1. Summary of significant accounting policies (continued)

(m) Investments and other financial assets

Classification

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

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 10) and receivables (note 13) in the balance sheet.

(ii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and an ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

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

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

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

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

Impairment

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

Note 1. Summary of significant accounting policies (continued)

(n) Derivatives and hedging activities

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

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

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 29. Movements in the hedging reserve in shareholders' equity are shown in note 27(b). The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

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

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

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

(ii) *Net investment hedges*
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

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

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

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

Note 1. Summary of significant accounting policies (continued)

(o) Property, plant and equipment

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

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

(p) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment charges. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Brands

Expenditure incurred in developing or enhancing brands is written off against operating profit in the year in which it is incurred. Brands are shown at historical cost.

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

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

(iii) Computer software

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

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 1. Summary of significant accounting policies (continued)

(r) Borrowings

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

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

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

(s) Borrowing costs

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

(t) Provisions

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

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

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

(u) Employee benefits

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

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

Note 1. Summary of significant accounting policies (continued)

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

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

(v) Contributed equity

Ordinary shares are classified as equity.

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

(w) Dividends

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

(x) Earnings per share

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

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

(y) Employee and executive share plans

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

Billabong Executive Performance Share Plan
Share-based compensation benefits are provided to the executive team via the Billabong Executive Performance Share Plan. Information relating to this Plan is set out in note 42.

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

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

Note 1. Summary of significant accounting policies (continued)

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

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

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

Billabong Executive Performance and Retention Plan
Share-based compensation benefits are also provided to the executive team via the Billabong Executive Performance and Retention Plan. Information relating to this Plan is set out in note 42.

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

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

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

(z) Financial guarantee contracts

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

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

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

(aa) Parent entity financial information

The financial information for the parent entity, Billabong International Limited, disclosed in note 43 has been prepared on the same basis as the consolidated financial report, except as set out below.

Note 1. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

(bb) Goods and Services Tax (GST)

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

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

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

(cc) Rounding of amounts

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

Note 1. Summary of significant accounting policies (continued)

(dd) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

(i) *AASB 9 Financial Instruments and AASB 2009-11 Amendments arising from AASB 9 (effective from 1 January 2013)*
AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact. The Group has not yet decided when to adopt AASB 9.

(ii) *AASB 2009-5 Amendments from the annual improvements project (effective from 1 January 2010)*
In 2009 the AASB issued a number of amendments to existing International Financial Reporting Standards. The amendments will generally apply to financial reporting periods commencing on or after 1 January 2010. The Group will apply the revised standards from the relevant application dates.

(iii) *AASB 2010-3 Amendments to Australian Accounting Standards arising from the annual improvements project and AASB 2010-4 Further amendments to Australian Accounting Standards arising from the annual improvements project (effective from 1 July 2010 and 1 January 2011)*
In June 2010 the AASB issued a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The amendments will generally apply to financial reporting periods commencing on or after 1 July 2010. The Group will apply the revised standards from the relevant application dates.

Note 2. Financial risk management

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

(a) Market risk

(i) Foreign exchange risk

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

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

Forward contracts are used to manage foreign exchange risk. The Group's Risk Management Policy is for each region to hedge greater than 80% of forecast foreign denominated inventory purchases for the upcoming season. Further hedges can be executed following receipt of customer orders. All hedges of projected purchases qualify as "highly probable" forecast transactions for hedge accounting purposes. The Group has, as outlined in note 29, forward exchange contracts designated as cash flow hedges.

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

		Consolidated	
	Notes	**2010 $'000**	2009 $'000
Australian Dollars			
Cash and cash equivalents	9	25,887	157,559
Trade and other receivables	10, 13	49,530	44,114
Borrowings	19, 22	(11,915)	(39,095)
Trade and other payables	18	(21,590)	(27,080)
		41,912	135,498
United States Dollars			
Cash and cash equivalents	9	132,709	129,700
Trade and other receivables	10, 13	147,013	157,914
Borrowings	19, 22	(379,505)	(388,619)
Trade and other payables	18	(210,807)	(163,680)
		(310,590)	(264,685)
European Euros			
Cash and cash equivalents	9	11,827	12,796
Trade and other receivables	10, 13	97,357	109,626
Borrowings	19, 22	(13,941)	(100,947)
Trade and other payables	18	(49,921)	(46,916)
		45,322	(25,441)
Other			
Cash and cash equivalents	9	38,319	32,882
Trade and other receivables	10, 13	121,650	105,067
Borrowings	19,22	(20,097)	(29,242)
Trade and other payables	18	(33,227)	(40,271)
		106,645	68,436

Note 2. Financial risk management (continued)

(a) Market risk (continued)

Sensitivity analysis
The majority of the carrying amounts of the Group's financial assets and liabilities are denominated in the functional currency of the relevant subsidiary and thus there is no foreign exchange exposure. The majority of foreign exchange exposure as at 30 June 2010 relates to intragroup monetary assets or liabilities, which whilst these intragroup assets or liabilities are eliminated on group consolidation, there is an exposure at balance date which is recognised in the consolidated income statement as unrealised foreign exchange gains or losses. This is because the monetary item represents a commitment to convert one currency into another and exposes the Group to a gain or loss through currency fluctuations.

At 30 June 2010 had the Australian Dollar as at 30 June 2010 weakened / strengthened by 10% against the United States Dollar with all other variables held constant, post-tax profit for the year would have been $3.9 million higher / $3.2 million lower (2009: $3.0 million higher / $2.4 million lower), mainly as a result of intragroup monetary assets or liabilities as at 30 June 2010. Profit is more sensitive to movements in the Australian Dollar / United States Dollar in 2010 than 2009 because of increased amounts of intragroup monetary assets or liabilities and increased amounts of United States Dollar assets or liabilities in non-United States Dollar functional currency entities as at 30 June 2010 compared with as at 30 June 2009. Equity (excluding the effect to the Foreign Currency Translation Reserve of translating the United States of America operations' net assets/equity to Australian Dollars) would have been $10.4 million higher / $10.0 million lower (2009: $6.5 million higher / $2.5 million lower). The Group's exposure to other foreign exchange movements as at 30 June 2010 is not material.

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

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

	2010 $'000	2009 $'000
Bank loans, syndicated facility, drawdown facility and cash advance facilities	422,759	553,065
Interest rate swaps (notional principal amount)	(188,568)	(198,044)
Net exposure to interest rate risk	234,191	355,021

An analysis by maturities is provided in (c) below and a summary of the terms and conditions is in note 22.

Group sensitivity analysis
At 30 June 2010 if interest rates had changed by - / + 50 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been $1.5 million lower / higher (2009: $1.5 million lower / higher). Equity would have been $1.9 million lower / higher (2009: $2.6 million lower / higher) mainly as a result of an increase / decrease in the fair value of the cash flow hedges as at 30 June 2010.

(b) Credit risk

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

The Group has no significant concentrations of credit risk.

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

Note 2. Financial risk management (continued)

(b) Credit risk (continued)

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

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

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. The vast majority of cash at bank and short-term bank deposits are held with banks with at least a credit rating of 'A'. Derivative counterparties have a credit rating of at least 'A'. The vast majority of trade receivables are with existing customers (who have been customers for at least six months) with no defaults in the past (for further information about impaired trade receivables and past due but not impaired receivables refer to note 10).

(c) Liquidity risk

Due to the financial liabilities within the Group, the Group is exposed to liquidity risk, being the risk of encountering difficulties in meeting such obligations. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to closeout market positions. At the end of the reporting period the Group held deposits at call of $2.4 million (2009: $128.1 million). Due to the dynamic nature of the underlying businesses, the Group aims at maintaining flexibility in funding by keeping committed credit lines available. Refer to note 22(d) for information in regards to the Group's financing arrangements. Refer to note 26(h) for information in regards to the Group's capital management strategy.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising the undrawn borrowing facilities) and cash and cash equivalents (note 9) on the basis of expected cash flows. This is generally carried out at a local level in the operating companies of the Group in accordance with practice and limits set by the Group. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the Group's liquidity management policy involves monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

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

Note 2. Financial risk management (continued)

(c) Liquidity risk (continued)

Consolidated - 2010	Less than 6 months $'000	Between 6 and 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying Amount (assets) / liabilities $'000
Non-interest bearing	308,845	---	---	---	---	308,845	308,845
Fixed rate debt	722	778	1,300	68	---	2,868	2,699
Variable rate debt	25,609	7,517	238,047	176,980	---	448,153	422,759
Net settled derivatives (interest rate swaps)	1,694	1,623	---	---	---	3,317	4,847
Net variable rate liabilities	27,303	9,140	238,047	176,980	---	451,470	427,606
Less: Cash (i)	(208,742)	---	---	---	---	(208,742)	(208,742)
Net variable rate liquidity position	(181,439)	9,140	238,047	176,980	---	242,728	218,864
Gross settled derivatives (forward exchange contracts)							
- (inflow)	(105,687)	(26,452)	---	---	---	(132,139)	(3,543)
- outflow	101,686	26,936	---	---	---	128,622	---
	(4,001)	484	---	---	---	(3,517)	(3,543)

Syndicated facility

On 17 July 2008 a new AU$600 million unsecured its Syndicated Revolving Multi-Currency Facility was entered into by the Group to replace the previous AU$515 million secured facilities and to provide additional liquidity to the Group (refer to note 22 for the Group's secured facilities as at 30 June 2010). The new facility was structured on an unsecured basis with two and three year tranches of AU$300 million each. Consistent with the Group's capital risk management strategy (note 26(h)), on 16 October 2008 the Group converted this facility into a US$533.5 million facility to minimise the volatility in the Group's financing facilities due to movements in the AUD/USD exchange rate. The two year tranche under this facility, which was due for roll-over on or prior to 1 July 2010, was extended to 1 July 2012 on 11 August 2009 and the facility balance relating to this tranche was reduced from US$266.75 million to US$216.75 million.

On 4 August 2010, the Group renegotiated this Syndicated Revolving Multi-Currency Facility which included:

- an increase in the total facility balance from US$483.5 million to US$790.0 million to be split equally between the two tranches under the facility;
- an extension to 1 July 2013 of the three year tranche of the facility, to remain a three year facility; and
- an extension to 1 July 2014 of the three year tranche of the facility, to become a four year facility.

Drawdown facility

On 21 July 2008 a new AU$100 million unsecured multi-currency drawdown facility was entered into by the Group, replacing the previous secured facility for the same amount (refer to note 22 for the Group's secured facilities as at 30 June 2010). On 22 December 2008 the Group converted this facility into a US$100 million facility to further minimise the volatility in the Group's financing facilities due to movements in the AUD/USD exchange rate.

On 7 September 2009 the Group completed the extension of its US$100 million unsecured multi-currency drawdown facility to 1 July 2012 which was due for rollover on or prior to 17 July 2010.

Note 2. Financial risk management (continued)

(c) Liquidity risk (continued)

Consolidated - 2009	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount (assets) / liabilities
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Non-interest bearing	268,544	---	---	---	---	268,544	268,544
Fixed rate debt	1,030	881	1,730	1,642	---	5,283	4,838
Variable rate debt	16,425	8,099	257,447	298,207	---	580,178	553,065
Net settled derivatives (interest rate swaps)	3,329	3,311	5,022	---	---	11,662	9,523
Net variable rate liabilities	19,754	11,410	262,469	298,207	---	591,840	562,588
Less: Cash (i)	(332,937)	---	---	---	---	(332,937)	(332,937)
Net variable rate liquidity position	(313,183)	11,410	262,469	298,207	---	258,903	229,651
Gross settled derivatives (forward exchange contracts)							
- (inflow)	(216,980)	(24,003)	---	---	---	(240,983)	---
- outflow	225,529	24,244	---	---	---	249,773	8,987
	8,549	241	---	---	---	8,790	8,987

Entitlement offers (prior year only)
In May 2009, the Company invited institutional and retail shareholders to participate in accelerated non-renounceable pro-rata entitlement offers to subscribe for 2 new ordinary shares for every 11 existing ordinary shares at an issue price of $7.50 per share (refer to note 26 for further information). Each offer was fully underwritten by Goldman Sachs JBWere. Details of these offers are as follows:

- The institutional entitlement offer was made on 18 May 2009 with shares issued on and ranking for dividends after 29 May 2009. As a result, 30.6 million new shares were issued, resulting in cash proceeds of $229.2 million.
- The retail entitlement offer was made on 25 May 2009 with shares issued on and ranking for dividends after 19 June 2009. As a result, 8.2 million new shares were issued, resulting in cash proceeds of $61.6 million.

In total the entitlement offer raised cash proceeds of $290.8 million, before transaction costs.

(i) Cash
Cash is considered in managing the Group's exposure to liquidity and interest rate risks. As at 30 June 2010 the Group held a significant cash balance of $208.7 million (2009: $332.9 million). Of this amount $63.8 million (2009: $142.0 million) was used for debt repayment or debt offset as follows:

Cash allocated for debt offset
In order to optimise the cost of funds, the Group has a cash pooling arrangement wherein a portion of the Group's cash is notionally offset on a daily basis against the outstanding debt drawn under the drawdown facility for the purposes of calculating interest expense payable. At 30 June 2010, the amount of cash included in the notional pooling was $63.8 million (30 June 2009: $17.4 million).

Cash allocated for debt repayment (prior year only)
A comprehensive analysis was performed by management to determine the most efficient use of the net proceeds of the entitlement offers detailed above. The analysis considered the order of repayment of current drawn debt, expected interest rates and commitment and break fees associated with early repayment of debt segments. Based on the results of this analysis, at 30 June 2009, $124.6 million of these net proceeds were held in an 'at call' deposit account earning market interest rates pending repayment of specific debt segments in July and August 2009 using these net proceeds.

Note 2. Financial risk management (continued)

(d) Fair value measurements

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

As of 1 July 2009, the Group has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

Group – at 30 June 2010	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Forward exchange contracts – cash flow hedges	---	5,396	---	5,396
Total assets	---	5,396	---	5,396
Liabilities				
Forward exchange contracts – cash flow hedges	---	1,853	---	1,853
Interest rate swap contracts – cash flow hedges	---	4,847	---	4,847
Total liabilities	---	6,700	---	6,700

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1. The Group does not hold any of these financial instruments at 30 June 2010.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise derivative financial instruments. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3. The Group does not hold any level 3 financial instruments at 30 June 2010.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of borrowings is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates that are available to the Group for similar financial instruments. Refer to note 13(b) and 22(f) for further information.

Note 3. Critical accounting estimates and judgements

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

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

Estimated impairment of goodwill and indefinite life intangibles
The Group tests annually whether goodwill and indefinite life intangibles have suffered any impairment and if any intangibles cease to have an indefinite life, in accordance with the accounting policy stated in note 1(i). The recoverable amounts of cash-generating units ("CGU") have been determined based on value-in-use calculations ("VIU"). These calculations require the use of estimates and judgements, in particular the achievement of forecast growth rates which are determined through a Board approved budgeting process. Assumptions used in impairment testing are detailed in note 15.

If the VIU of a CGU is lower than its carrying amount, then the CGU's fair value less costs to sell ("FVLCTS") is determined as AASB 136 requires the recoverable amount of a CGU to be the higher of VIU and FVLCTS. In applying the FVLCTS approach, the recoverable amount of a CGU is assessed using market based valuation techniques such as discounted cash flow analysis, comparable transactions and observable trading multiples. Assumptions used in impairment testing are detailed in note 15.

Deferred contingent consideration – acquisitions pre 1 July 2009
In relation to certain acquisitions that have been made by the Group pre 1 July 2009, deferred contingent consideration may be payable in cash if certain specific conditions are achieved. When the deferred contingent consideration payable becomes probable and the amount can be reliably measured, the Group brings it to account (refer note 25) and the amount of the contingent liability is disclosed in note 32. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange (refer note 32). The discount rate used is the Group's risk free rate. The calculation of the payable for each acquisition requires the use of estimates and judgements which are reviewed at each reporting period.

Deferred contingent consideration – acquisitions post 1 July 2009
In relation to certain acquisitions that have been made by the Group post 1 July 2009, deferred contingent consideration may be payable in cash if certain specific conditions are achieved. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange (refer note 32). The discount rate used is the Group's risk free rate. Amounts classified as a payable are subsequently remeasured to fair value with changes in fair value recognised in the income statement. The calculation of the payable for each acquisition requires the use of estimates and judgements which are reviewed at each reporting period.

Note 4. Segment information

(a) Description of segments

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

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

The geographic segments are organised as below:

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

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

Europe
This segment includes Austria, Belgium, 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 and Amortisation ("EBITDA") excludes inter-company royalties and sourcing fees and includes an allocation of global overhead costs (which include corporate overhead, international advertising and promotion costs, central sourcing costs and foreign exchange movements).

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

(b) Segment information provided to the CEO

The segment information provided to the CEO for the reportable segments for the year ended 30 June 2010 is as follows:

2010	**Australasia** $'000	**Americas** $'000	**Europe** $'000	**Rest of the World** $'000	**Total** $'000
Sales to external customers	425,663	712,633	344,023	---	1,482,319
Third party royalties	---	---	---	2,009	2,009
Total segment revenue	425,663	712,633	344,023	2,009	1,484,328
EBITDA	89,175	92,311	69,847	2,009	253,342
Less: depreciation and amortisation					(35,572)
Less: net interest expense					(14,739)
Profit before income tax					203,031
Segment assets	1,798,343	1,056,651	260,199	---	3,115,193
Elimination					(932,926)
Unallocated assets:					
Deferred tax					22,656
Derivative assets					5,396
Total assets					2,210,319
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	34,956	30,788	16,268	---	82,012

Note 4. Segment information (continued)

2009	Australasia $'000	Americas $'000	Europe $'000	Rest of the World $'000	Total $'000
Sales to external customers	444,260	836,836	387,966	---	1,669,062
Third party royalties	---	---	---	2,189	2,189
Total segment revenue	444,260	836,836	387,966	2,189	1,671,251
EBITDA	100,378	99,911	82,352	2,189	284,830
Less: depreciation and amortisation					(38,134)
Less: impairment charge*					(9,476)
Less: net interest expense					(31,173)
Profit before income tax					206,047
Segment assets	1,701,468	945,281	273,703	---	2,920,452
Elimination					(722,091)
Unallocated assets:					
Deferred tax					21,735
Derivative assets					416
Total assets					2,220,512
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	103,498	127,616	21,026	---	252,140

* As a result of the impairment review of retail store assets, certain assets have been written down to their recoverable amount, being their value-in-use. Value-in-use has been assessed by reference to management's best estimate of the risk adjusted future earnings performance of each store over the remaining life of the lease. This resulted in a pre-tax impairment charge in respect of retail stores in various countries, but predominately in the United Kingdom and the United States, which amounted to $9.5 million. This impairment charge has been included within the other expenses line item on the income statement.

(c) Other segment information

(i) Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties reported to the CEO is measured in a manner consistent with that in the income statement.

Segment revenue reconciles to total revenue from continuing operations as follows:

	Consolidated	
	2010 $'000	2009 $'000
Total segment revenue	1,484,328	1,671,251
Other revenue, including interest revenue	3,199	3,183
Total revenue from continuing operations	1,487,527	1,674,434

Segment revenue in relation to Australia represents 58% of Australasia (2009: 56%), segment revenue in relation to the United States of America represents 78% of Americas (2009: 80%) and segment revenue in relation to France represents 83% of Europe (2009: 90%).

No single customer represents more than 10% of the Group's total turnover for the years ended 30 June 2010 and 30 June 2009.

(ii) EBITDA

The CEO assesses the performance of the operating segments based on total revenue and EBITDA. A reconciliation of EBITDA to operating profit before income tax is provided in (b) above.

Note 4. Segment information (continued)

(iii) Segment assets

The amounts provided to the CEO with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. A reconciliation of the segment assets to the total assets is provided in (b) above.

Segment assets, excluding deferred tax assets and derivative assets, in relation to Australia represents 88% of Australasia (2009: 89%), segment assets, excluding deferred tax assets and derivative assets, in relation to the United States represents 87% of Americas (2009: 88%) and segment assets, excluding deferred tax assets and derivative assets, in relation to France represents 89% of Europe (2009: 92%).

Note 5. Revenue

	Consolidated	
	2010	2009
	$'000	$'000
From continuing operations		
Sales revenue		
Sale of goods	1,482,319	1,669,062
Royalties	2,009	2,189
	1,484,328	1,671,251
Other revenue		
Interest	2,488	2,039
Other	711	1,144
	3,199	3,183
Total revenue from continuing operations	1,487,527	1,674,434

Note 6. Other income

	Consolidated	
	2010	2009
	$'000	$'000
Foreign exchange gains	6,183	---
Other	878	1,491
	7,061	1,491

Note 7. Expenses

	Consolidated	
	2010	2009
	$'000	$'000
Profit before income tax includes the following specific expenses:		
Expenses		
Cost of goods sold	675,533	780,436
Selling, general and administrative expenses	469,788	525,351
Employee benefits expense (included in the amounts above)	226,427	248,539
Depreciation		
Buildings	1,219	577
Plant and equipment	32,874	35,928
Plant and equipment under finance lease	830	1,114
Total depreciation	34,923	37,619
Amortisation of finite life intangible assets	649	515
Interest and finance charges		
Interest expense	17,227	33,212
Other borrowing costs	5,130	2,670
Provisions: unwinding of discount	2,807	2,679
Total interest and finance charges	25,164	38,561
Net loss on disposal of property, plant and equipment	628	450
Foreign exchange losses	---	512
Acquisition related costs	3,868	---
Rental expense relating to operating leases		
Minimum lease payments	65,654	68,532
Contingent rentals	7,027	4,367
Sub-leases	---	108
Total rental expense relating to operating leases	72,681	73,007
Impairment of other assets		
Inventories *(included in the cost of goods sold amount above)*	3,322	3,398
Trade receivables	8,323	3,951
Retail store fixed assets	---	9,476

Note 8. Income tax expense

	Consolidated	
	2010 $'000	2009 $'000
(a) Income tax expense		
Current tax	65,148	61,893
Deferred tax	(8,510)	(7,670)
Adjustments for current tax of prior periods	1,227	(1,015)
	57,865	53,208
Deferred income tax revenue included in income tax expense comprises:		
Increase in deferred tax assets (note 16)	(9,103)	(11,870)
Increase in deferred tax liabilities (note 23)	593	4,200
	(8,510)	(7,670)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	203,031	206,047
Tax at the Australian tax rate of 30% (2009: 30%)	60,909	61,814
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Net exempt income	(9,681)	(13,534)
Entertainment	248	528
Sundry items	36	---
Non-deductible permanent differences	4,015	7,847
	55,527	56,655
Difference in overseas tax rates	1,111	(2,066)
Under/(over) provision in prior years	1,227	(1,015)
Prior year tax losses previously not recognised	---	(366)
Income tax expense	57,865	53,208
(c) Tax expense / (income) relating to items of other comprehensive income		
Cash flow hedges (note 16, note 23)	6,215	(10,067)
Investment hedge (note 16, note 23)	(4,488)	3,210
	1,727	(6,857)
(d) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	17,672	5,282
Potential tax benefit @ 30%	5,302	1,585

All unused tax losses were incurred by entities that are not part of the Australian tax consolidated group.

Note 8. Income tax expense (continued)

(e) Tax consolidation legislation

Billabong International Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002. The accounting policy in relation to this legislation is set out in note 1(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Billabong International Limited.

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

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

The income tax expense for the financial year is $57.9 million (2009: $53.2 million), an effective tax rate of 28.5% (2009: 25.8%). The higher effective tax rate is driven by one-off adjustments in the US included in the prior year. Adjusting for these one-off prior year tax adjustments, the effective tax rate in the prior year would have been approximately 28.0%.

Note 9. Current assets - Cash and cash equivalents

	Consolidated	
	2010 $'000	2009 $'000
Cash at bank and in hand	206,326	204,861
Deposits at call	2,416	128,076
	208,742	332,937

Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 2.

Note 10. Current assets – Trade and other receivables

	Consolidated 2010 $'000	2009 $'000
Trade receivables	410,549	396,212
Provision for impairment of receivables (note(a))	(21,521)	(23,133)
	389,028	373,079
Other receivables (note (c))	9,350	32,076
	398,378	405,155

(a) Impaired trade receivables

As at 30 June 2010 current trade receivables of the Group with a nominal value of $26.1 million (2009: $23.3 million) were impaired. The amount of the provision was $21.5 million (2009: $23.1 million). The individually impaired receivables mainly relate to retailers encountering difficult economic conditions. It was assessed that a portion of the receivables is expected to be recovered.

The ageing of these receivables is as follows:

	Consolidated 2010 $'000	2009 $'000
Up to 3 months	9,774	3,239
3 to 6 months	1,923	4,400
Over 6 months	14,392	15,697
	26,089	23,336

Movements in the provision for impairment of receivables are as follows:

	Consolidated 2010 $'000	2009 $'000
At 1 July	23,133	16,033
Provision for impairment recognised during the year	8,323	9,906
Receivables written off during the year	(7,898)	(3,951)
Exchange differences	(2,037)	1,145
At 30 June	21,521	23,133

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Note 10. Current assets – Trade and other receivables (continued)

(b) Past due but not impaired

As at 30 June 2010, trade receivables of $82.8 million (2009: $68.5 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Consolidated	
	2010	2009
	$'000	$'000
Up to 3 months	46,239	31,714
3 to 6 months	19,465	15,727
Over 6 months	17,105	21,045
	82,809	68,486

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

(c) Other receivables

This amount includes $0.1 million (2009: $23.5 million) relating to amounts recoverable under a debtor factoring arrangement. Other amounts generally arise from transactions outside the usual operating activities of the consolidated entity. Collateral is not normally obtained.

North American subsidiaries of the parent entity assign a portion of their accounts receivable to a factor under an agreement which continues on an annual basis. In the current financial year the use of this factoring arrangement was reduced and only a minor portion of the accounts receivable were factored. The factor is appointed solely as an agent to collect outstanding accounts receivable and at all times the outstanding amounts remain the property of, and all credit risk remains with, the North American subsidiaries of the parent entity. The subsidiaries may request advances on the net sales factored at any time before the amounts are collected on terms and conditions as may reasonably be requested by the factor which reduces the amounts owed by the factor to the North American subsidiaries per the agreement. The factor charges a commission on the net sales factored, and interest on any advances at prime rate.

(d) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 2.

(e) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The Group does not hold any collateral as security. Refer to note 2 for more information on the Risk Management Policy of the Group and the credit quality of the Group's trade receivables.

Note 11. Current assets – Inventories

	Consolidated	
	2010	2009
	$'000	$'000
Raw materials and stores – at cost	4,901	6,234
Work in progress – at cost	8,971	7,185
Finished goods		
- at cost	194,293	199,974
- at net realisable value	32,235	40,277
	240,400	253,670

Inventory expense

Inventories recognised as an expense during the year ended 30 June 2010 amounted to $672.2 million (2009: $777.0 million). Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2010 amounted to $3.3 million (2009: $3.4 million). The expense has been included in 'cost of goods sold' in the income statement.

Note 12. Current assets - Other

	Consolidated	
	2010	2009
	$'000	$'000
Prepayments	22,185	18,263
Derivative financial assets (note 29)	5,396	300
	27,581	18,563

Risk exposure

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2.

Note 13. Non-current assets - Receivables

	Consolidated	
	2010 **$'000**	2009 $'000
Other receivables	17,172	11,566
	17,172	11,566

Other receivables predominantly relate to store lease deposits.

Non-current assets pledged as security
Refer to note 22(c) for information on non-current assets pledged as security by the consolidated entity.

(a) Impaired receivables and receivables past due

None of the non-current receivables are impaired however US$4.1 million is considered past due but not impaired.

(b) Fair values

The fair values and carrying values of non-current receivables are as follows:

	2010		2009	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Consolidated				
Other receivables	17,172	17,172	11,566	11,566

(c) Risk exposure

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2.

Note 14. Non-current assets – Property, plant and equipment

Consolidated	Land and buildings	Furniture, fittings and equipment	Leased plant & equipment	Total
	$'000	$'000	$'000	$'000
At 30 June 2008				
Cost or fair value	29,007	173,250	12,254	214,511
Accumulated depreciation	(1,923)	(74,221)	(4,247)	(80,391)
Net book amount	27,084	99,029	8,007	134,120
Year ended 30 June 2009				
Opening net book amount	27,084	99,029	8,007	134,120
Additions	13,724	50,850	---	64,574
Disposals	---	(277)	(270)	(547)
Depreciation charge	(577)	(35,928)	(1,114)	(37,619)
Impairment charge	---	(9,476)	---	(9,476)
Exchange differences	1,085	9,167	512	10,764
Closing net book amount	41,316	113,365	7,135	161,816
At 30 June 2009				
Cost or fair value	43,821	235,957	11,917	291,695
Accumulated depreciation	(2,505)	(122,592)	(4,782)	(129,879)
Net book amount	41,316	113,365	7,135	161,816

Consolidated	Land and buildings	Furniture, fittings and equipment	Leased plant & equipment	Total
	$'000	$'000	$'000	$'000
Year ended 30 June 2010				
Opening net book amount	41,316	113,365	7,135	161,816
Additions	11,416	41,933	22	53,371
Disposals	---	(848)	(64)	(912)
Depreciation charge	(1,219)	(32,874)	(830)	(34,923)
Exchange differences	(534)	(7,183)	(1,158)	(8,875)
Closing net book amount	50,979	114,393	5,105	170,477
At 30 June 2010				
Cost or fair value	54,520	258,689	9,690	322,899
Accumulated depreciation	(3,541)	(144,296)	(4,585)	(152,422)
Net book amount	50,979	114,393	5,105	170,477

Non-current assets pledged as security
Refer to note 22(c) for information on non-current assets pledged as security by the controlled entity.

Note 15. Non-current assets – Intangible assets

Consolidated	Goodwill	Indefinite life Brands	Indefinite life Other *	Finite life	Total
	$'000	$'000	$'000	$'000	$'000
At 30 June 2008					
Cost	253,877	547,897	8,497	3,467	813,738
Accumulated amortisation	(10,098)	---	---	(2,743)	(12,841)
Net book amount	243,779	547,897	8,497	724	800,897
Year ended 30 June 2009					
Opening net book amount	243,779	547,897	8,497	724	800,897
Additions	111,200	66,840	2,390	1,229	181,659
Adjustment to contingent consideration	(28,344)	---	---	---	(28,344)
Amortisation charge	---	---	---	(515)	(515)
Exchange differences	34,062	11,454	136	142	45,794
Closing net book amount	360,697	626,191	11,023	1,580	999,491
At 30 June 2009					
Cost	370,848	626,191	11,023	5,019	1,013,081
Accumulated amortisation	(10,151)	---	---	(3,439)	(13,590)
Net book amount	360,697	626,191	11,023	1,580	999,491

Consolidated	Goodwill	Indefinite life Brands	Indefinite life Other *	Finite life	Total
	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2010					
Opening net book amount	360,697	626,191	11,023	1,580	999,491
Additions	22,953	---	929	1,861	25,743
Adjustment to contingent consideration	114,585	---	---	---	114,585
Amortisation charge	---	---	---	(649)	(649)
Exchange differences	(12,914)	(6,615)	(1,310)	(23)	(20,862)
Closing net book amount	485,321	619,576	10,642	2,769	1,118,308
At 30 June 2010					
Cost	495,469	619,576	10,642	6,816	1,132,503
Accumulated amortisation	(10,148)	---	---	(4,047)	(14,195)
Net book amount	485,321	619,576	10,642	2,769	1,118,308

* Other indefinite life intangible assets relate to key money.

Adjustment to contingent consideration on acquisitions which occurred pre 1 July 2009
Information about the adjustment to contingent consideration is provided in note 25.

Amortisation charge
Amortisation charge of $0.6 million (2009: $0.5 million) has been included in 'other expenses' in the income statement.

(a) Impairment tests for goodwill and brands

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to brands acquired or geographical regions where operations existed at the time goodwill arose.

Brands are allocated to the Group's CGUs identified according to individual brands.

The recoverable amount of a CGU firstly is determined based on value-in-use ("VIU") calculations. These calculations use cash flow projections based on financial budgets with anticipated growth rates approved by the Board of Directors covering a four year period and include a terminal value based upon maintainable cash flows.

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

Note 15. Non-current assets – Intangible assets (continued)

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

	Goodwill Consolidated		Brands Consolidated	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Billabong	52,574	50,990	434,533	434,533
Element	850	850	25,733	25,733
Von Zipper	---	---	1,187	1,187
Kustom	3,746	3,746	10,540	10,540
Palmers	---	---	5,113	5,113
Honolua	7,751	8,140	4,385	4,385
Beachculture	---	---	853	853
Nixon	88,037	71,047	64,819	68,076
Amazon	---	---	1,141	1,123
Xcel	12,884	7,456	4,007	4,208
Tigerlily	1,889	1,889	3,600	3,600
Sector 9	35,202	24,914	10,607	11,140
DaKine	150,664	73,887	53,058	55,700
Australia	12,744	9,250	---	---
New Zealand	8,647	8,504	---	---
South Africa	41,433	42,407	---	---
North America	60,304	50,485	---	---
United Kingdom	8,596	7,132	---	---
	485,321	360,697	619,576	626,191

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

Pre-tax cash flow projections for brand CGUs are discounted using a pre-tax discount rate range between 12.0% and 14.0% (2009: 12.0% and 14.0%).

Pre-tax cash flow projections for regional CGUs with allocated goodwill only are discounted using a pre-tax discount rate between 12.5% and 16.8% (2009: 12.5% and 14.5%).

The discount rates used reflect specific risks relating to the relevant region of operation or the brand and are derived from the Group's weighted average cost of capital.

Terminal growth rates used in the value-in-use calculations range between 4.0% and 5.0% (2009: 4.0% and 5.0%). The terminal growth rates used reflect the maturity and establishment of the brand or region.

These assumptions have been used for the analysis of each CGU.

(c) Key assumptions used for fair value less costs to sell calculations

For the South Africa cash generating unit, its recoverable amount was determined using a fair value less costs to sell approach.

The cash flow forecasts used in the discounted cash flow model were based on past experience, economic trends such as GDP growth and inflation as well as industry and market trends. The forecasts also took into account the expected impact from new product initiatives, retail store expansion, and further distribution of group brands into the South Africa market. The forecasts were adopted by the Board and were for a period of ten years to reflect the capturing of the benefits of the new product initiatives.

The key assumptions used in performing the impairment test for South Africa CGU, were average sales growth and EBITDA margin over the forecast period of 10.0% and 17.9% respectively, terminal growth rate of 5.0% and a pre tax discount rate of 16.3%. The fair value less costs to sell of the South African CGU represented 111.7% of its carrying value. However, this is sensitive to changes in the key assumptions. Movements in key assumptions which would result in the recoverable amount of the South Africa CGU equalling its carrying value are if:

- Average sales growth reduced from 10.0% to 8.0%
- Average EBITDA margin reduced from 17.9% to 16.4%
- The discount rate increased from 16.3% to 17.3%

Note 15. Non-current assets – Intangible assets (continued)

(d) Indefinite useful life for brands

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

Key factors taken into account in assessing the useful life of brands were:
- The brands are well established and have experienced strong sales growth over time; and
- There are currently no legal, technical or commercial obsolescence factors applying to the brands or the products to which they attach which indicate that the life should be considered limited.

Note 16. Non-current assets – Deferred tax assets

	Consolidated	
	2010 $'000	2009 $'000
The deferred tax assets balance comprises temporary differences attributable to:		
Trade and other receivables	10,090	1,896
Employee benefits	2,525	2,416
Inventories	10,848	11,460
Trade and other payables	10,615	4,635
Plant and equipment	3,409	---
Rights issue	1,556	2,593
Other	7,715	8,237
Tax losses	8,545	14,187
Finance lease liabilities	2,356	3,331
Cash flow hedges (note 27)	2,558	6,754
Total deferred tax assets	60,217	55,509
Set-off of deferred tax assets against deferred tax liabilities pursuant to set-off provisions (note 23)	(37,561)	(33,774)
Net deferred tax assets	22,656	21,735
Movements:		
Opening balance at 1 July	55,509	36,993
Credited to the income statement (note 8)	9,103	11,870
Credited to other comprehensive income (note 8)	1,907	6,890
Exchange differences	(6,505)	(1,024)
Acquisition of subsidiary (note 35)	203	780
Closing balance at 30 June	60,217	55,509
Deferred tax assets to be recovered after more than 12 months	36,926	23,135
Deferred tax assets to be recovered within 12 months	23,291	32,374
	60,217	55,509

Note 17. Non-current assets - Other

	Consolidated	
	2010 $'000	2009 $'000
Prepayments	3,021	5,007
Derivative financial assets (note 29)	---	116
	3,021	5,123

Note 18. Current liabilities – Trade and other payables

	Consolidated	
	2010 **$'000**	2009 $'000
Trade payables	175,750	200,393
Other payables	133,095	68,151
Derivative financial liabilities (note 29)	6,700	9,403
	315,545	277,947

(a) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 2.

(b) Other payables

Included in other payables is deferred payment payable of $85.3 million (US$72.4 million) relating to Quiet Flight and Nixon (2009: $50.7 million deferred payment payable to Quiet Flight and South Africa licensee and second instalment payable for the DaKine acquisition).

Note 19. Current liabilities – Borrowings

	Consolidated	
	2010 **$'000**	2009 $'000
Secured		
Bank loans	---	5
Lease liabilities (note 33)	11	167
Total secured current borrowings	11	172
Unsecured		
Bank loans	18,615	8,363
Lease liabilities (note 33)	1,365	1,496
Other loans	534	---
Total unsecured current borrowings	20,514	9,859
Total current borrowings	20,525	10,031

(a) Bank loans

Bank loans represent term loans with fixed and variable interest rates.

(b) Other loans

Other loans represent term loans with fixed interest rates.

(c) Security and fair value disclosures

Details of the security relating to each of the secured liabilities, the fair value of each of the borrowings and further information on the bank loans are set out in note 22.

(d) Risk exposure

Details of the Group's exposures to risks arising from current and non-current borrowings are set out in note 2.

Note 20. Current liabilities – Current tax liabilities

	Consolidated	
	2010 **$'000**	2009 $'000
Income tax	8,820	7,690

As shown on the consolidated balance sheet the current tax receivable is $3.6 million (2009: $10.5 million).

Note 21. Current liabilities – Provisions

	Consolidated	
	2010 **$'000**	2009 $'000
Employee benefits	9,889	13,483

Note 22. Non-current liabilities – Borrowings

	Consolidated	
	2010 **$'000**	2009 $'000
Secured		
Lease liabilities (note 33)	---	42
Total secured non-current borrowings	---	42
Unsecured		
Syndicated facility	380,547	519,035
Drawdown facility	23,063	25,667
Lease liabilities (note 33)	1,323	3,128
Total unsecured non-current borrowings	404,933	547,830
Total non-current borrowings	404,933	547,872

(a) Syndicated facility

The syndicated facility is utilised by the Group's major regions and is a multi-currency facility enabling the Group to borrow in Australian dollars (AUD), United States dollars (USD), Euro (EUR), Great Britain pounds (GBP), Japanese Yen (JPY), New Zealand dollars (NZD), Canadian dollars (CAD), Singapore dollars (SGD) and Hong Kong dollars (HKD). The syndicated facility has funding periods of 1, 2, 3, 4 and 6 calendar months. Interest is payable in arrears and calculated as the benchmark reference rate plus a margin. Applicable benchmark reference rates include: London Interbank Offered Rate (LIBOR); USD LIBOR; and Bank Bill Swap Rate (BBSY). The syndicated facility may be drawn at any time during the term of the facility provided the Company or Group does not trigger an event of default. As at 30 June 2009, the syndicated facility was structured on an unsecured basis with two and three year tranches of US$266.75 million each. The syndicated facility was due for periodic review and roll-over on or prior to 1 July 2010 and 1 July 2011 for each of the two tranches respectively. The two year tranche under this facility, which was due for roll-over on or prior to 1 July 2010, was extended to 1 July 2012 on 11 August 2009 and the facility balance relating to this tranche was reduced from US$266.75 million to US$216.75 million.

On 4 August 2010, the Group renegotiated its Syndicated Revolving Multi-Currency Facility which included:

- an increase in the total facility balance from US$483.5 million to US$790.0 million to be split equally between the two tranches under the facility;
- an extension to 1 July 2013 of the three year tranche of the facility, to remain a three year facility; and
- an extension to 1 July 2014 of the three year tranche of the facility, to become a four year facility.

Note 22. Non-current liabilities – Borrowings (continued)

(b) Drawdown facility

The drawdown facility is utilised by the Group's major regions and enables the Group to borrow in Australian dollars (AUD), United States dollars (USD), Canadian dollars (CAD), Euro (EUR), Great Britain pounds (GBP) and Korean Won (KRW). The facility may be drawn at any time during the term of the facility provided the Company or Group does not trigger an event of default. The drawdown facility is due for periodic review. On 7 September 2009 the Group completed the extension of its US$100 million unsecured multi-currency drawdown facility to 1 July 2012 which was due for rollover on or prior to 17 July 2010.

(c) Assets pledged as security

Finance lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Consolidated	
	2010 $'000	2009 $'000
Current		
Floating charge		
Cash and cash equivalents	---	849
Trade and other receivables	---	8,779
Total current assets pledged as security	---	9,628
Non-current		
Finance lease		
Plant and equipment	12	279
Total non-current assets pledged as security	12	279
Total assets pledged as security	12	9,907

(d) Financing arrangements

	Consolidated	
	2010 $'000	2009 $'000
Credit standby arrangements		
Total facilities		
Bank overdrafts and at-call facilities	12,064	18,269
Trade finance facilities	56,265	41,568
Syndicated, drawdown and other facilities	688,850	796,300
	757,179	856,137
Used at balance date		
Trade finance facilities	16,261	12,811
Syndicated, drawdown and other facilities	404,676	546,645
	420,937	559,456
Unused at balance date		
Bank overdrafts and at-call facilities	12,064	18,269
Trade finance facilities	40,004	28,757
Syndicated, drawdown and other facilities	284,174	249,655
	336,242	296,681
Bank loan facilities		
Total facilities	23,933	16,904
Used at balance date	18,615	8,368
Unused at balance date	5,318	8,536

Note 22. Non-current liabilities – Borrowings (continued)

(d) Financing arrangements (continued)

Trade finance facilities, utilised by the Group for the provision of letters of credit to suppliers, may be drawn upon at any time and may be terminated by the bank at any time by way of written notice. Subject to no event of default, the Group may draw down on the syndicated and drawdown facilities at any time over the term of the facilities.

(e) Risk exposure

Information about the Group's exposure to interest rate and foreign currency changes is provided in note 2.

(f) Fair value

The carrying amounts and fair values of borrowings at balance date are:

	2010		2009	
Consolidated	**Carrying amount $'000**	**Fair value $'000**	Carrying amount $'000	Fair value $'000
On-balance sheet				
Lease liabilities	2,699	2,598	4,833	4,705
	2,699	2,598	4,833	4,705

All other fair values equal the carrying values of borrowings.

Fair value is inclusive of costs which would be incurred on settlement of a liability. The fair value of the borrowings on balance sheet is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles. None of the borrowings are traded.

Note 23. Non-current liabilities – Deferred tax liabilities

	Consolidated 2010 $'000	2009 $'000
The deferred tax liabilities balance comprises temporary differences attributable to:		
Trade and other receivables	521	940
Property, plant and equipment	4,164	10,133
Prepayments	5,226	---
Other	7,478	6,608
Intangible assets – brands	72,366	72,457
Cash flow hedges (note 27)	2,621	133
Total deferred tax liabilities	92,376	90,271
Set-off of deferred tax assets pursuant to set-off provisions (note 16)	(37,561)	(33,774)
Net deferred tax liabilities	54,815	56,497
Movements:		
Opening balance at 1 July	90,271	80,208
Charged to the income statement (note 8)	593	4,200
Charged to other comprehensive income (note 8)	3,634	33
Exchange differences	(2,234)	4,111
Acquisition of subsidiary (note 35)	112	1,719
Closing balance at 30 June	92,376	90,271
Deferred tax liabilities to be settled after more than 12 months	89,719	86,191
Deferred tax liabilities to be settled within 12 months	2,657	4,080
	92,376	90,271

Note 24. Non-current liabilities – Provisions and other payables

	Consolidated 2010 $'000	2009 $'000
Employee benefits	3,593	3,267
Derivative financial liabilities (note 29)	9,192	9,523
Other	9,486	8,540
	22,271	21,330

Note 25. Deferred payment

The non-current deferred payment payable of $155.9 million relates to the Xcel, Sector 9, DaKine, Two Seasons and Swell acquisitions (2009: $108.7 million relates to Nixon, Xcel, Sector 9, DaKine and Two Seasons acquisitions). Included in note 18 'other payables' is deferred payment payable of $85.3 million relating to Quiet Flight and Nixon (2009: $16.9 million relates to Quiet Flight and South Africa licensee).

On 28 June 2010 a deferred payment was made to the South Africa Licensee. This amount has been included on the "Payments for purchase of subsidiaries and businesses, net of cash acquired" line in the cash flow statement. No further payments are due relating to this acquisition.

The deferred payment for Nixon was reclassified from non-current to current during the 2009/10 financial year and the underlying payable was restated (increased approximately US$19 million) during the year ended 30 June 2010 taking into account the latest Board approved forecast.

Note 25. Deferred payment (continued)

The non-current deferred payment in relation to Xcel, Sector 9, DaKine and Two Seasons was restated during the year ended 30 June 2010 taking into account the latest Board approved forecast. This resulted in an increase in relation to Xcel of approximately US$5 million, an increase in relation to DaKine of approximately US$66 million and an increase in relation to Sector 9 of approximately US$10 million in the underlying USD payable. This also resulted in an increase in relation to Two Seasons of approximately GBP 1 million in the underlying GBP payable.

Note 26. Contributed equity

	Notes	Consolidated 2010 Shares '000	Consolidated 2009 Shares '000	Consolidated 2010 $'000	Consolidated 2009 $'000
(a) Share capital					
Ordinary shares					
Fully paid	(b),(c)	253,123	252,018	668,810	656,061
Other equity securities	(d)	---	---	2,951	2,951
Total contributed equity		253,123	252,018	671,761	659,012

(b) Movements in ordinary share capital:

2009

Date	Details	Notes	Number of shares	$'000
1 July 2008	Opening balance		207,432,717	313,366
8 August 2008	Exercise of Element options	(d)	4,846	39
24 October 2008	Dividend reinvestment plan issue	(f)	679,669	8,143
24 October 2008	Dividend reinvestment plan issue (underwritten)	(f)	1,761,958	21,390
23 April 2009	Dividend reinvestment plan issue	(f)	1,845,692	15,448
23 April 2009	Dividend reinvestment plan issue (underwritten)	(f)	1,513,035	12,876
29 May 2009	Rights issue	(g)	30,563,449	229,226
19 June 2009	Rights issue	(g)	8,216,393	61,623
				662,111
	Less: Transaction costs arising on rights issue	(g)		(8,643)
	Deferred tax credit recognised directly in equity	(g)		2,593
30 June 2009	Balance		252,017,759	656,061

2010

Date	Details	Notes	Number of shares	$'000
30 June 2009	Opening balance		252,017,759	656,061
	Dividend reinvestment plan issue	(f)	845,577	9,869
	Dividend reinvestment plan issue	(f)	259,216	2,880
30 June 2010	Balance		253,122,552	668,810

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Note 26. Contributed equity (continued)

(d) Other equity securities

The amount shown for other equity securities is the value of the options issued in relation to the Element acquisition. Each option is convertible into one ordinary share. Each option is not entitled to participate in dividends or the proceeds on winding up of the Company. Options issued as part of the Element acquisition are as follows:

	Date of Issue	No. of Options Issued	Exercise price	Date of exercise
2006	11 August 2005	5,981	$13.69	10 August 2006
	11 August 2005	11,959	$13.69	10 August 2007
	11 August 2005	5,981	$13.69	10 August 2008
2005	11 August 2004	10,977	$7.99	10 August 2005
	11 August 2004	21,952	$7.99	10 August 2006
	11 August 2004	10,977	$7.99	10 August 2007
2004	10 August 2003	15,032	$6.32	9 August 2004
	10 August 2003	30,066	$6.32	9 August 2005
	10 August 2003	15,032	$6.32	9 August 2006
2003	10 August 2002	15,049	$7.70	9 August 2003
	10 August 2002	30,096	$7.70	9 August 2004
	10 August 2002	15,048	$7.70	9 August 2005

(e) Executive performance share plan

The Billabong Executive Performance Share Plan – Australia trust and the Billabong Executive Performance Share Plan trust holds 2,215,751 (2009: 1,885,301) shares on issue at the end of the year. Refer to note 42 for further information.

(f) Dividend reinvestment plan

The Dividend Reinvestment Plan ("DRP") was approved by the Directors on 21 August 2008. For the final dividend to be paid on 22 October 2010, the DRP is optional and offers ordinary shareholders the opportunity to acquire fully paid ordinary shares which rank equally with all other shares issued, without transaction costs, at the prevailing market value. A shareholder can elect to participate in or terminate their involvement in the DRP in respect of the 2010 final dividend at any time prior to the record date of 24 September 2010. The DRP in relation to the 2010 final dividend will not be underwritten. The terms of the DRP may be varied for future dividends beyond the final dividend for the year ended 30 June 2010.

(g) Rights issue (prior year only)

Institutional Entitlement Offer
On 18 May 2009 the Company invited eligible institutional shareholders to participate in an accelerated non-renounceable pro-rata entitlement offer to subscribe for 2 new ordinary shares for every 11 existing ordinary shares at an issue price of $7.50 per new share with such shares to be issued on, and rank for dividends after 29 May 2009. As a result, 30.6 million new shares were issued, resulting in gross cash proceeds of $229.2 million. The entitlement offer was fully underwritten by Goldman Sachs JBWere.

Retail Entitlement Offer
On 25 May 2009 the Company invited eligible retail shareholders to participate in an accelerated non-renounceable pro-rata entitlement offer to subscribe for 2 new ordinary shares for every 11 existing ordinary shares at an issue price of $7.50 per new share with such shares to be issued on, and rank for dividends after 19 June 2009. As a result, 8.2 million new shares were issued, resulting in gross cash proceeds of $61.6 million. The entitlement offer was fully underwritten by Goldman Sachs JBWere.

Expenses Arising From Rights Issue
Costs incurred in relation to the rights issue up to and including 30 June 2009 were $8.6 million ($6.1 million net of deferred tax credits recognised directly in equity). Directly attributable equity raising costs incurred have been recognised net of any tax effects directly in equity, and therefore do not impact earnings for the year ended 30 June 2009.

Note 26. Contributed equity (continued)

(h) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistently with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as ‘equity’ as shown in the balance sheet (including non-controlling interests) plus net debt.

During 2010, the Group's strategy, which was unchanged from 2009, was to maintain a conservative gearing ratio for the Group. The gearing ratios at 30 June 2010 and 30 June 2009 were as follows:

		Consolidated	
	Notes	**2010 $’000**	2009 $’000
Total borrowings	19, 22	425,458	557,903
Less: cash and cash equivalents	9	(208,742)	(332,937)
Net debt		216,716	224,966
Total equity		1,217,579	1,176,936
Total capital		1,434,295	1,401,902
Gearing ratio		15%	16%

Note 27. Treasury shares, reserves and retained profits

	Consolidated	
	2010 $’000	2009 $’000
(a) Treasury shares	(30,767)	(27,295)
Movement:		
Balance 1 July	(27,295)	(24,896)
Treasury shares held by employee share plan trusts	(3,472)	(7,194)
Employee share scheme issue	---	4,795
Balance 30 June	(30,767)	(27,295)

Treasury shares are shares in Billabong International Limited that are held by the Billabong Executive Performance Share Plan – Australia trust and the Billabong Executive Performance Share Plan trust for the purpose of issuing shares under the Billabong Executive Performance Share Plan (see note 42 for further information).

Date	Details	Number of shares
1 July 2008	Opening balance	1,692,288
	Acquisition of shares by the employee share plan trusts	556,865
	Employee share scheme issue	(363,852)
30 June 2009	Balance	1,885,301
	Acquisition of shares by the employee share plan trusts	330,450
	Employee share scheme issue	---
30 June 2010	Balance	2,215,751

Note 27. Treasury shares, reserves and retained profits (continued)

	Consolidated 2010 $'000	Consolidated 2009 $'000
(b) Reserves		
Option reserve	7,844	2,519
Other reserves		
Foreign currency translation reserve	(50,652)	(19,185)
Cash flow hedge reserve	(1,991)	(13,295)
Total other reserves	(52,643)	(32,480)
Other equity reserve	(9,726)	---
Total reserves	(54,525)	(29,961)

	Consolidated 2010 $'000	Consolidated 2009 $'000
Movements in reserves:		
Option reserve		
Balance 1 July	2,519	6,995
Share-based payment expense	5,325	319
Employee share scheme issue	---	(4,795)
Balance 30 June	7,844	2,519
Foreign currency translation reserve		
Balance 1 July	(19,185)	(38,399)
Net investment hedge	(16,981)	17,291
Currency translation differences arising during the year	(14,486)	1,923
Balance 30 June	(50,652)	(19,185)
Cash flow hedge reserve		
Balance 1 July	(13,295)	(3,042)
Revaluation – gross	(769)	(19,320)
Deferred tax	551	6,875
Transfer to inventory - gross	17,407	5,069
Deferred tax	(6,142)	(1,763)
Effect of exchange rate changes	257	(1,114)
Balance 30 June	(1,991)	(13,295)
Other equity reserve		
Balance 1 July	---	---
Put/call option in relation to acquisition of non-controlling interest	(9,726)	---
Balance 30 June	(9,726)	---

Note 27. Treasury shares, reserves and retained profits (continued)

(c) Retained profits

Movements in retained profits were as follows:

	Consolidated	
	2010 **$'000**	2009 $'000
Balance 1 July	575,180	538,128
Net profit for the year	145,988	152,839
Dividends (note 28)	(90,878)	(115,787)
Balance 30 June	630,290	575,180

(d) Nature and purpose of reserves

Option reserve
The option reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised;
- the grant date fair value of shares issued to employees; and
- the issue of shares held by the Billabong Executive Performance Share Plan – Australia trust and the Billabong Executive Performance Share Plan trust to employees.

Foreign currency translation reserve
Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d).

Cash flow hedge reserve
The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(n). Amounts are recognised in the income statement when the associated hedged transaction affects profit and loss.

Other equity reserve
This reserve is in relation to the symmetrical put and call options at the present value of the expected redemption amount for the acquisition of the non-controlling interest of Surfstitch Pty Ltd.

Note 28. Dividends

	Parent entity 2010 $'000	Parent entity 2009 $'000
(a) Ordinary shares		
2009 final dividend of 18.0 cents per fully paid share paid on 23 October 2009 (2008 final dividend of 28.5 cents per fully paid share paid on 24 October 2008)		
Partially franked to 50% based on tax paid at 30%	45,363	---
Fully franked based on tax paid at 30%	---	59,120
2010 interim dividend of 18.0 cents per fully paid share paid on 22 April 2010 (2009 interim dividend of 27.0 cents per fully paid share paid on 23 April 2009)		
Partially franked to 50% based on tax paid at 30%	45,515	---
Partially franked to 45% based on tax paid at 30%	---	56,667
Total dividends paid	90,878	115,787
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the year ended 30 June 2010 is as follows:		
Paid in cash	78,129	92,196
Satisfied by issue of shares (note 26(b))	12,749	23,591
	90,878	115,787
(b) Dividends not recognised at year end		
In addition to the above dividends, since year end the Directors have resolved to pay a final dividend of 18.0 cents per fully paid ordinary share partially franked to 50% based on tax paid at 30% (2009: 18.0 cents partially franked to 50% based on tax paid at 30%). The aggregate amount of the proposed dividend expected to be paid on 22 October 2010 out of retained profits at 30 June 2010, but not recognised as a liability at year end, is	45,562	45,363

The unfranked portion of the dividend is declared to be conduit foreign income. Australian dividend withholding tax is not payable by non-resident shareholders on the unfranked portion of the dividend sourced from conduit foreign income.

(c) Dividend reinvestment plan

The Dividend Reinvestment Plan ("DRP") was approved by the Directors on 21 August 2008. For the final dividend to be paid on 22 October 2010, the DRP is optional and offers ordinary shareholders the opportunity to acquire fully paid ordinary shares which rank equally with all other shares issued, without transaction costs, at the prevailing market value. A shareholder can elect to participate in or terminate their involvement in the DRP in respect of the 2010 final dividend at any time prior to the record date of 24 September 2010. The DRP in relation to the 2010 final dividend will not be underwritten. The terms of the DRP may be varied for future dividends beyond the final dividend for the year ended 30 June 2010.

Note 28. Dividends (continued)

(d) Franked dividends

The franked portions of the final dividends recommended after 30 June 2010 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2011.

	Parent entity	
	2010 $'000	2009 $'000
Franking credits available for subsequent financial years to the equity holders of the parent entity based on a tax rate of 30% (2009: 30%)	4,100	170

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:
(a) franking credits that will arise from the payment of the amount of the provision for income tax;
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the dividend recommended by the Directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $9.8 million (2009: $9.7 million).

Note 29. Derivative financial instruments

		Consolidated	
	Notes	**2010 $'000**	2009 $'000
Current assets			
Forward foreign exchange contracts – cash flow hedges	12	5,396	300
Total current derivative financial instrument assets		5,396	300
Non-current assets			
Forward foreign exchange contracts – cash flow hedges	17	---	116
Total non-current derivative financial instrument assets		---	116
Current liabilities			
Forward foreign exchange contracts – cash flow hedges	18	1,853	9,403
Interest rate swap contracts – cash flow hedges	18	4,847	---
Total current derivative financial instrument liabilities		6,700	9,403
Non-current liabilities			
Interest rate swap contracts – cash flow hedges	24	---	9,523
Other derivative liability *	24	9,192	---
Total non-current derivative financial instrument liabilities		9,192	9,523
Net derivative financial instruments		(10,496)	(18,510)

***** The other derivative liability relates to the symmetrical put and call options relating to the acquisition of the non-controlling interest.

Note 29. Derivative financial instruments (continued)

(a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 2).

(i) Interest rate swap contracts – cash flow hedges
The Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The contracts are settled on a net basis and the net amount receivable or payable at the reporting date is included in other debtors or other creditors. At balance date the notional principal amount of the interest rate swap contracts covered 50% (2009: 51%) of outstanding USD denominated cash advances. The contract requires settlement of net interest receivable or payable every three months. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

Details of the interest rate swap contracts outstanding at balance date are set out below:

Notional principal amount	Expiry	Fixed interest rate	90 day bank bill rate at 30 June 2010
US$60 million (2009: US$60 million)	January 2011	3.9% (2009: 3.9%)	0.5% (2009: 0.6%)
US$100 million (2009: US$100 million)	January 2011	3.9% (2009: 3.9%)	0.5% (2009: 0.6%)

The gain or loss from remeasuring the hedging instruments at fair value is deferred to equity in the cash flow hedge reserve, to the extent that the hedge is effective, and reclassified into the income statement when the hedged interest expense is recognised. The ineffective portion is recognised in the income statement immediately.

At balance date the fair value of the interest rate swap contracts were US$4.1 million derivative financial instrument liabilities (2009: US$7.7 million derivative financial instrument liabilities).

Note 29. Derivative financial instruments (continued)

(ii) Forward exchange contracts – cash flow hedges – product purchases
From time to time and in order to protect against exchange rate movements, the Group enters into forward exchange contracts to purchase US dollars, Euro and Australian dollars. The contracts are hedging highly probable forecast purchases for the upcoming season and are timed to mature when major shipments of inventory are scheduled to arrive.

The cash flows are expected to occur at various dates within one year from the balance date. At balance date, the details of outstanding contracts are:

	Buy USD		Average exchange rate	
	2010 US$'000	2009 US$'000	**2010**	2009
0 – 6 Months				
Sell Euro	52,214	49,924	1.3315	1.3521
Sell AUD	20,000	19,700	0.8745	0.7113
Sell BRL	1,000	---	0.5459	---
Sell CAD	3,500	4,235	0.9646	0.9003
Sell Yen	3,602	1,673	0.0111	0.0104
Sell ZAR	2,441	4,600	0.1249	0.1005
6 – 12 Months				
Sell Euro	12,215	12,000	1.2119	1.4121
Sell Yen	2,900	850	0.0112	0.0105
Sell ZAR	350	750	0.1224	0.1170

	Buy Euro		Average exchange rate	
	2010 EUR'000	2009 EUR'000	**2010**	2009
0 – 6 Months				
Sell GBP	3,329	6,455	0.9011	0.9218
6 – 12 Months				
Sell GBP	4,692	3,444	0.8312	0.8709

	Buy AUD		Average exchange rate	
	2010 AU$'000	2009 AU$'000	**2010**	2009
0 – 6 Months				
Sell NZD	3,250	3,150	0.8062	0.8189
Sell Yen	102	150	0.0124	0.0136
6 – 12 Months				
Sell NZD	750	1,000	0.8061	0.7834
Sell Yen	710	150	0.0134	0.0136

Amounts disclosed above represent currency acquired measured at the contracted rate.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flow occurs, the Group adjusts the initial measurement of the inventory recognised in the balance sheet by the related amount deferred in equity.

At balance date these contracts were net assets of $3.5 million (2009: net liabilities of $7.8 million).

The South African Derivative Products facility is secured by local debtors.

Note 29. Derivative financial instruments (continued)

(iii) Forward exchange contracts – cash flow hedges – debt repayments (prior year only)
In the prior year in order to protect against exchange rate movements on scheduled repayment of drawn debt segments under the Group's syndicated facility, the Group entered into forward exchange contracts to purchase Japanese Yen, Canadian dollars and Euros. The contracts were timed to mature when the debt facility was due for rollover.

The cash flows were expected to occur at various dates within six months from the balance date. At balance date, the details of outstanding contracts are:

Consolidated	Buy JPY		Average exchange rate	
	2010 JPY'000	2009 JPY'000	**2010**	2009
0 – 6 Months				
Sell AUD	---	480,000	---	76.16
	Buy CAD		Average exchange rate	
	2010 CA$'000	2009 CA$'000	**2010**	2009
0 – 6 Months				
Sell AUD	---	9,000	---	0.8919
	Buy Euros		Average exchange rate	
	2010 EUR'000	2009 EUR'000	**2010**	2009
0 – 6 Months				
Sell AUD	---	50,000	---	0.5705

Amounts disclosed above represent currency acquired measured at the contracted rate.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flow occurs, the Group adjusts the initial measurement of the liability recognised in the balance sheet by the related amount deferred in equity.

At balance date these contracts were net liabilities of nil (2009: $1.1 million).

(iv) Hedge of net investment in foreign entity
The foreign exchange loss of $17.0 million (2009: gain of $17.3 million) on translation of inter-company loans to Australian dollars at reporting date is transferred to the foreign currency translation reserve, in equity (note 27(b)). There was no ineffectiveness to be recorded from net investments in foreign entity hedges.

(b) Risk exposures
Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2.

Note 30. Key management personnel disclosures

(a) Directors

The following persons were Directors of Billabong International Limited during the financial year:

(i) Non-Executive Chairman
E.T. Kunkel

(ii) Executive Directors
D. O'Neill, Chief Executive Officer
P. Naude, General Manager, Billabong USA

(iii) Non-Executive Directors
A.G. Froggatt
M.A. Jackson
F.A. McDonald
G.S. Merchant
C. Paull

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	*Position*	*Employer*
F. Fogliato	General Manager, Billabong Europe	GSM Europe Pty Ltd
C. Kypriotis	General Manager, Billabong South Americas	GSM Brasil Ltda
S. North	General Manager, Billabong Australasia	GSM (Operations) Pty Ltd
J. Schillereff	President, Element Skateboards, Inc	Element Skateboards, Inc
C. White	Chief Financial Officer	GSM (Operations) Pty Ltd

(c) Key management personnel compensation

	Consolidated	
	2010 $'000	2009 $'000
Short-term employee benefits	8,934	8,332
Long-term employee benefits – long service leave	48	31
Post-employment benefits	142	142
Share-based payments	1,502	(335)
	10,626	8,170

Detailed remuneration disclosures are provided in sections A – F of the remuneration report.

Note 30. Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options
Details of options provided as remuneration and shares issued on the exercise of such options, together with the terms and conditions of the options, can be found in section F of the remuneration report.

(ii) Options holdings
The number of options over ordinary shares in the Company held during the financial year by each Director of Billabong International Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2010 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Billabong International Limited						
D. O'Neill	629,007	---	---	---	629,007	---
P. Naude	524,170	---	---	---	524,170	---
Other key management personnel of the Group						
F. Fogliato	314,503	---	---	---	314,503	---
S. North	314,503	---	---	---	314,503	---
C. White	314,503	---	---	---	314,503	---

2009 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Billabong International Limited						
D. O'Neill	---	629,007	---	---	629,007	---
P. Naude	---	524,170	---	---	524,170	---
Other key management personnel of the Group						
F. Fogliato	---	314,503	---	---	314,503	---
S. North	---	314,503	---	---	314,503	---
C. White	---	314,503	---	---	314,503	---

(iii) Rights holdings
Details of rights provided as remuneration and shares issued on the vesting of such rights, together with the terms and conditions of the rights, can be found in section F of the remuneration report. The number of rights over ordinary shares in the Company held during the financial year by each Director of Billabong International Limited and other key management personnel of the Group are set out below.

2010 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Billabong International Limited						
D. O'Neill	172,190	88,170	---	(44,123)	216,237	---
P. Naude	152,682	76,262	---	(41,917)	187,027	---
Other key management personnel of the Group						
F. Fogliato	80,971	43,284	---	(18,101)	106,154	---
C. Kypriotis	44,365	22,443	---	(11,766)	55,042	---
S. North	84,941	44,085	---	(20,907)	108,119	---
J. Schillereff	22,119	8,014	---	(7,202)	22,931	---
C. White	100,156	50,956	---	(26,148)	124,964	---

Note 30. Key management personnel disclosures (continued)

2009 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Billabong International Limited						
D. O'Neill	145,982	71,704	(39,809)	(5,687)	172,190	---
P. Naude	136,158	62,020	(39,809)	(5,687)	152,682	---
Other key management personnel of the Group						
F. Fogliato	60,936	35,200	(13,269)	(1,896)	80,971	---
C. Kypriotis	36,729	18,252	(9,289)	(1,327)	44,365	---
S. North	71,331	35,852	(19,462)	(2,780)	84,941	---
J. Schillereff	23,411	6,518	(6,834)	(976)	22,119	---
C. White	86,013	41,440	(23,885)	(3,412)	100,156	---

(iv) Share holdings

The numbers of ordinary shares in the Company held during the financial year by each Director of Billabong International Limited and other key management personnel of the Group, including their personally related entities, are set out below.

2010 Name	Balance at the start of the year	Received on the exercise of rights holdings	Received on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Billabong International Limited					
E.T. Kunkel	116,033	---	---	402	116,435
D. O'Neill	1,467,779	---	---	(350,263)	1,117,516
A.G.Froggatt	7,505	---	---	---	7,505
M.A. Jackson	270,259	---	---	5,579	275,838
F.A. McDonald	153,046	---	---	---	153,046
G.S. Merchant	37,770,098	---	---	---	37,770,098
P. Naude	1,175,988	---	---	(70,000)	1,105,988
C. Paull	2,973,289	---	---	---	2,973,289
Other key management personnel of the Group					
F. Fogliato	25,191	---	---	---	25,191
C. Kypriotis	21,211	---	---	---	21,211
S. North	70,452	---	---	---	70,452
J. Schillereff	67,908	---	---	(20,360)	47,548
C. White	30,029	---	---	(20,029)	10,000

Note 30. Key management personnel disclosures (continued)

2009 Name	Balance at the start of the year	Received on the exercise of rights holdings	Received on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Billabong International Limited					
E.T. Kunkel	94,466	---	---	21,567	116,033
D. O'Neill	1,026,821	39,809	---	401,149	1,467,779
A.G.Froggatt	---	---	---	7,505	7,505
M.A. Jackson	228,656	---	---	41,603	270,259
F.A. McDonald	129,500	---	---	23,546	153,046
G.S. Merchant	31,442,183	---	---	6,327,915	37,770,098
P. Naude	1,831,179	39,809	---	(695,000)	1,175,988
C. Paull	2,515,867	---	---	457,422	2,973,289
Other key management personnel of the Group					
F. Fogliato	11,922	13,269	---	---	25,191
C. Kypriotis	11,922	9,289	---	---	21,211
S. North	356,956	19,462	---	(305,966)	70,452
J. Schillereff	63,671	6,834	---	(2,597)	67,908
C. White	56,840	23,885	---	(50,696)	30,029

(e) Other transactions with Directors and other key management personnel

Directors of Billabong International Limited

During 2009 and 2010 Burleigh Point Limited utilised property of Director P. Naude for use in certain advertising and promotional activities. There was no consideration paid by Burleigh Point Limited to P. Naude for use of the property.

The Company leases a retail store in South Africa from the wife of Director P. Naude. The rental agreement is based on normal commercial terms and conditions.

Key management personnel of the consolidated entity

Mr J. Schillereff was a Director of Element Skate Inc at the time the Company acquired the assets comprising the "Element" skate operation. The transaction was effective from 1 July 2002 and as part of the consideration paid by the Company for these assets Mr J. Schillereff was granted 423,053 options. Additionally, as part of the acquisition terms, Mr J. Schillereff was entitled to receive four further tranches of options, granted in August following the first, second, third and fourth anniversary of the transaction. The terms and conditions of each grant of options under the Element acquisition agreement to 30 June 2010 are as follows:

Grant date	Expiry date	Exercise price	Number of options granted	Value per option at grant date	Date exercisable
04 Jul 01	30 Jun 05	$5.35	423,053	$1.74	25% after 30 Jun 02; 50% after 30 Jun 03; 25% after 30 Jun 04
10 Aug 02	09 Aug 06	$7.70	8,847	$1.25	25% after 9 Aug 03; 50% after 9 Aug 04; 25% after 9 Aug 05
10 Aug 03	09 Aug 07	$6.32	8,836	$1.42	25% after 9 Aug 04; 50% after 9 Aug 05; 25% after 9 Aug 06
11 Aug 04	10 Aug 08	$7.99	6,453	$1.26	25% after 10 Aug 05; 50% after 10 Aug 06; 25% after 10 Aug 07
11 Aug 05	10 Aug 09	$13.69	3,516	$2.22	25% after 10 Aug 06; 50% after 10 Aug 07; 25% after 10 Aug 08

Note 31. Remuneration of auditors

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

	Consolidated	
	2010 $'000	2009 $'000
(a) Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports	683	726
Related practices of PricewaterhouseCoopers Australian firm	861	859
Total remuneration for audit services	1,544	1,585
(b) Non-audit services		
Audit-related services		
PricewaterhouseCoopers Australian firm		
General accounting advice	67	---
Related practices of PricewaterhouseCoopers Australian firm		
Due diligence services	351	357
General accounting advice	31	58
Total remuneration for audit-related services	449	415
Taxation services		
PricewaterhouseCoopers Australian firm		
International tax consulting together with separate tax advice on acquisitions	814	3,204
Related practices of PricewaterhouseCoopers Australian firm		
International tax consulting together with separate tax advice on acquisitions	1,357	1,156
Total remuneration for taxation services	2,171	4,360
Total remuneration for non-audit services	2,620	4,775

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis.

The Group and its Audit Committee are committed to ensuring the independence of the external auditors, both in appearance as well as in fact. Accordingly, significant attention is directed toward the appropriateness of the external auditors to perform services other than the audit. A formal pre-approval policy of audit and non-audit services provided by the external auditor has been adopted in this regard such that proposed services may either (1) be pre-approved without consideration of specific case-by-case services by the Audit Committee ("general pre-approval") for example statutory or financial audits/reviews; or (2) require the specific pre-approval of the Audit Committee ("specific pre-approval") for example taxation and other services. The Audit Committee believes that the combination of these two approaches, and the inclusion of prohibited services, in this policy will result in an effective and efficient procedure to pre-approve services performed by the external auditor.

Note 32. Contingencies

Details and estimates of maximum amounts of contingent liabilities as at 30 June 2010 are as follows:

Guarantees
The Group had secured guarantees of $0.9 million (2009: $9.9 million).

The Group had unsecured guarantees in respect of operating leases of $1.0 million (2009: $3.8 million).

Contingent Consideration
In the event that certain future performance and management retention conditions are achieved, additional consideration may be payable in cash in relation to the Nixon, Quiet Flight, Xcel, Sector 9, DaKine, Two Seasons and Swell acquisitions. As at 30 June 2010, the deferred consideration relating to these acquisitions has been fully recognised taking into account the latest Board approved forecast. Refer to note 25.

At future reporting dates the Group will review these payments and restate, where applicable, should the earnings forecast change.

Trade Letters of Credit
The Group had $10.5 million letters of credit in favour of suppliers executed but undrawn as at 30 June 2010 (2009: $26.1 million). The letters of credit related to the purchase of inventory in the 2010/11 financial year and are part of the ordinary course of business.

No material losses are anticipated in respect of any of the above contingent liabilities.

Note 33. Commitments

	Consolidated	
	2010	2009
	$'000	$'000
(a) Lease commitments		
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	62,980	62,696
Later than one year but not later than five years	173,369	175,193
Later than five years	51,167	63,178
	287,516	301,067
Representing:		
Non-cancellable operating leases	287,348	300,623
Future finance charges on finance leases	168	444
	287,516	301,067

Note 33. Commitments (continued)

(i) Operating leases
The Group leases various retail stores, offices and warehouses under non-cancellable operating leases. The leases have varying terms, escalating clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	Consolidated	
	2010 $'000	2009 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	62,857	62,450
Later than one year but not later than five years	173,324	174,995
Later than five years	51,167	63,178
	287,348	300,623

(ii) Finance leases
The Group leases various plant and equipment with a carrying amount of $5.1 million (2009: $7.1 million).

	Consolidated	
	2010 $'000	2009 $'000
Commitments in relation to finance leases are payable as follows:		
Within one year	1,499	1,843
Later than one year but not later than five years	1,368	3,369
Later than five years	---	65
Minimum lease payments	2,867	5,277
Future finance charges	(168)	(444)
Total lease liabilities recognised as a liability	2,699	4,833
Representing lease liabilities:		
Current (note 19)	1,376	1,663
Non-current (note 22)	1,323	3,170
	2,699	4,833
The present value of finance lease liabilities is as follows:		
Within one year	1,376	1,663
Later than one year but not later than five years	1,323	3,105
Later than five years	---	65
Minimum lease payments	2,699	4,833

	Consolidated	
	2010 $'000	2009 $'000
(b) Contests and Athletes		
Commitments in relation to sponsorship of athletes and contests are payable as follows:		
Within one year	13,144	15,836
Later than one year but not later than five years	15,536	17,386
	28,680	33,222

(c) Remuneration commitments

Employment contracts for key management personnel do not have a fixed end date and therefore have not been included in the above note.

Note 33. Commitments (continued)

	Consolidated	
	2010	2009
	$'000	$'000
(d) Capital commitments		
Commitments in relation to capital commitments are payable as follows:		
Within one year	---	1,094
Later than one year but not later than five years	---	96
Later than five years	---	96
	---	1,286

Note 34. Related party transactions

(a) Parent entities

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

(b) Subsidiaries

Interests in subsidiaries are set out in note 36.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 30.

Note 35. Business combinations

Purchase consideration – cash outflow

	Consolidated	
	2010 $'000	2009 $'000
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	9,894	133,706
Less: Cash balances acquired	(434)	---
	9,460	133,706
Direct costs relating to the acquisitions	---	3,020
Payments relating to prior year acquisitions	40,131	7,034
Outflow of cash – investing activities	49,591	143,760
Direct costs relating to the acquisitions	944	---
Outflow of cash – operating activities	944	---

Acquisition related costs
Acquisition related costs of $0.9 million are included in other expenses in profit or loss and in operating activities in the cash flow statement. These acquisition related costs are only the amounts in relation to acquisitions completed in the year ended 30 June 2010 which is different to the amounts disclosed in note 7 which relate to all acquisitions, including those which are yet to be completed.

Acquisition related costs have been expensed as incurred in the current year. In the prior year, they were recognised as part of the cost of acquisition and therefore included in goodwill and investing activities in the cash flow statement.

2010

(a) Summary of acquisitions

On 1 November 2009 GSM Online Retail, Inc. and Seal Trademarks Pty Ltd acquired the assets and certain liabilities of Swell Commerce, Inc., a leading online retailer in the US boardsport sector. The acquisition has increased the Group's market share in the US online boardsports retail sector.

On 1 December 2009 GSM (Operations) Pty Ltd acquired 20% of the issued share capital of Surfstitch Pty Ltd, a leading Australian online boardsport retailer, and control of the entity through the acquisition of greater than 50% of the voting rights. The acquisition has increased the Group's market share in the Australian online boardsports retail sector.

Surfstitch Pty Ltd has been fully consolidated from the date on which control was transferred to the Group. GSM (Operations) Pty Ltd has options to acquire the remaining 80% of the business.

From 1 January 2010 GSM (Europe) Pty Ltd has acquired the DaKine distribution rights from distributors of DaKine products in Austria, Belgium, France, Germany and Luxembourg. GSM (Europe) Pty Ltd now has exclusive rights to distribute DaKine products in these countries.

On 23 April 2010 GSM (Europe) Pty Ltd and GSM Czech Republic s.r.o. acquired the assets and certain liabilities of OTTY s.r.o. a company duly established and existing in accordance with the laws of the Czech Republic. The acquisition has increased the Group's market share in Europe.

On 1 May 2010 Billabong Retail, Inc. and Seal Trademarks Pty Ltd acquired the assets and certain liabilities of Becker Surf Boards, Inc., a US retail chain featuring surf and related lifestyle apparel and accessories. The acquisition has increased the Group's market share in the US retail sector.

Note 35. Business combinations

(a) Summary of acquisitions (continued)

Details of the aggregated purchase consideration, the net assets acquired and goodwill are as follows:

	$'000
Purchase consideration:	
Cash paid	9,894
Estimated cash payable	2,699
Contingent consideration	7,277
Total purchase consideration	19,870

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	434
Trade receivables	122
Inventory	6,194
Plant and Equipment	1,117
Prepayments	476
Deferred tax assets	203
Employee entitlements	(162)
Trade and other payables	(5,745)
Deferred tax liabilities	(112)
Identifiable intangible assets	212
Net identifiable assets acquired	2,739
Less: non-controlling interests	(1,642)
Add: goodwill	18,773
Net assets acquired	19,870

Goodwill is attributable to the workforce and synergies expected to arise after the acquisition of the businesses. Goodwill is only deductible in the United States of America for tax purposes. For acquisitions that occurred in the year ended 30 June 2010, up to US$10.1 million will be deductible for tax purposes.

(i) Contingent consideration
In relation to the acquisition of the assets and certain liabilities of Swell Commerce, Inc., in the event that certain pre-determined earnings targets are achieved for the year ended 30 June 2012, additional consideration of between US$0 and up to a maximum of US$7 million may be payable in cash.

(ii) Acquired receivables
The fair value of acquired trade receivables is $0.1 million. The gross contractual amount is equal to the fair value of the acquired trade receivables. There were no acquired trade receivables that are expected to be uncollectible.

(iii) Non-controlling interests
In accordance with the accounting policy set out in note 1(h), the Group elected to recognise the non-controlling interests in Surfstitch Pty Ltd as its proportionate share of the acquired net identifiable assets.

(iv) Option to acquire
In February 2010, the Group entered into an exclusive 10-year agreement to license the California-based skateboard brand, Plan B. In addition to the license agreement, on 25 February 2010 Seal Trademarks Pty Ltd and CMDW, Inc signed a Purchase Option Agreement for the purchase of the Intellectual Property of Plan B Skateboards. The option period is from the date of the agreement, being 25 February 2010, until 5:00 pm on the day 10 years later, unless earlier lapsed and can be exercised by Seal Trademarks Pty Ltd at any time during the option period.

Note 35. Business combinations

(iv) Revenue and profit contribution
The acquired businesses contributed revenues of $22.0 million and net profit after tax and non-controlling interests of $2.3 million to the Group for the period from each acquisition to 30 June 2010.

If the acquisitions had occurred on 1 July 2009, consolidated revenue and consolidated net profit after tax and non-controlling interests for the year ended 30 June 2010 would have been $1,502.5 million and $145.7 million respectively based on best estimates.

2009

Da Kine Hawaii, Inc

(a) Summary of acquisition
On 1 October 2008 Burleigh Point, Ltd and Seal Trademarks Pty Ltd acquired the assets and certain liabilities of Da Kine Hawaii, Inc.

The acquired business contributed revenues of $97.2 million and net profit after tax of $10.1 million to the Group for the period from acquisition to 30 June 2009.

Details of the aggregated fair value of the assets and liabilities related to this acquisition are as follows:

	$'000
Purchase consideration:	
Cash paid	98,622
Estimated cash payable	34,430 *
Estimated deferred payment	39,868
Direct costs relating to the acquisition	1,412
Total purchase consideration	174,332
Fair value of net identifiable assets acquired	99,148
Goodwill	75,184

The goodwill is attributable to the high profitability of the acquired business and synergies expected to arise after the acquisition of the businesses.

* This amount has been paid during the year ended 30 June 2010 – refer to the consolidated cash flow statement.

(b) Assets and liabilities acquired
The aggregated fair value of identifiable assets and certain liabilities acquired are based on discounted cash flow models. The aggregated identifiable assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount $'000	**Fair value $'000**
Cash and cash equivalents	---	---
Trade receivables	25,460	25,460
Inventory	18,840	18,272
Plant and Equipment	1,113	1,113
Prepayments	981	981
Deferred tax assets	---	527
Employee entitlements	(128)	(128)
Trade and other payables	(2,784)	(2,784)
Deferred tax liabilities	---	(1,223)
Identifiable intangible assets	---	56,930
Net identifiable assets acquired	43,482	99,148

Note 35. Business combinations (continued)

In regards to the 'Da Kine Hawaii, Inc' acquisition, in the event that certain specific conditions are achieved additional consideration may be payable in cash. If it becomes probable that additional consideration will be payable it will be brought to account as a component of the goodwill arising on the acquisition when the amount can be reliably measured. The Group will review the likelihood of these payments at future reporting dates. Refer to note 25 and note 32.

The 'Da Kine Hawaii, Inc' acquisition was disclosed provisionally in the interim financial report for the half-year ended 31 December 2008. As part of the finalisation of the acquisition, the completion statement has been reviewed and an adjustment was made to working capital, which was the only significant adjustment to the provisional values disclosed in the interim financial report.

Sector 9 Incorporated, Eternity Surf Pty Limited, I.J.J. Pty Limited and Two Seasons Limited

(a) Summary of acquisitions
On 1 July 2008 Burleigh Point, Ltd and Seal Trademarks Pty Ltd acquired the assets and certain liabilities of Sector 9 Incorporated.

On 1 September 2008 GSM (Operations) Pty Limited and Pineapple Trademarks Pty Ltd acquired the assets and certain liabilities of Eternity Surf Pty Limited and I.J.J. Pty Limited.

On 1 October 2008 GSM England Retail Limited acquired 100% of the issued shares of Two Seasons Limited.

The acquired businesses and subsidiary contributed revenues of $46.9 million and net profit after tax of $3.0 million to the Group for the period from acquisition to 30 June 2009.

Details of the aggregated fair value of the assets and liabilities related to these acquisitions are as follows:

	$'000
Purchase consideration:	
Cash paid	35,084
Estimated deferred payment	9,110
Direct costs relating to the acquisitions	1,608
Total purchase consideration	45,802
Fair value of net identifiable assets acquired	14,314
Goodwill	31,488

The goodwill is attributable to the high profitability of the acquired businesses and subsidiary and synergies expected to arise after the acquisition of the businesses.

(b) Assets and liabilities acquired
The aggregated fair value of identifiable assets and certain liabilities acquired are based on discounted cash flow models. The aggregated identifiable assets and liabilities arising from the acquisitions are as follows:

	Acquiree's carrying amount $'000	**Fair value $'000**
Cash and cash equivalents	---	---
Trade receivables	2,432	2,405
Inventory	8,454	7,890
Plant and Equipment	2,539	1,782
Prepayments	794	794
Deferred tax assets	---	253
Employee entitlements	(144)	(144)
Trade and other payables	(7,614)	(7,614)
Deferred tax liabilities	(183)	(496)
Identifiable intangible assets	---	9,444
Net identifiable assets acquired	6,278	14,314

Note 35. Business combinations (continued)

In regards to the 'Sector 9 Incorporated' and 'Two Seasons Limited' acquisitions, in the event that certain specific conditions are achieved additional consideration may be payable in cash. If it becomes probable that additional consideration will be payable it will be brought to account as a component of the goodwill arising on the acquisition when the amount can be reliably measured. The Group will review the likelihood of these payments at future reporting dates. Refer to note 25 and note 32.

The above accounting in regards to the 'Two Seasons Limited' acquisition has been finalised and there have been no material adjustments to the provisional accounting.

If all of the above mentioned acquisitions had occurred on 1 July 2008, consolidated revenue and consolidated net profit after tax for the year ended 30 June 2009 would have been $1,713.0 million and $155.2 million respectively based on best estimates.

Note 36. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following significant subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity		Country of Incorporation	Class of shares	Equity Holding **	
				2010 %	2009 %
Amazon (New Zealand) Pty Ltd	*	Australia	Ordinary	100	100
Beach Culture International Pty Ltd		Australia	Ordinary	100	100
Billabong Retail, Inc		USA	Ordinary	100	100
Burleigh Point Canada, Inc		Canada	Ordinary	100	100
Burleigh Point, Ltd		USA	Ordinary	100	100
Element Skateboards, Inc		USA	Ordinary	100	100
GSM (Central Sourcing) Pty Ltd	*	Australia	Ordinary	100	100
GSM (Duranbah) Pty Ltd		Australia	Ordinary	100	100
GSM (Europe) Pty Ltd	*	Australia	Ordinary	100	100
GSM (Japan) Limited		Japan	Ordinary	100	100
GSM (NZ Operations) Limited		New Zealand	Ordinary	100	100
GSM (Operations) Pty Ltd	*	Australia	Ordinary	100	100
GSM (Trademarks) Pty Ltd	*	Australia	Ordinary	100	100
GSM Trading (South Africa) Pty Ltd	*	Australia	Ordinary	100	100
GSM Brasil Ltda		Brazil	Ordinary	100	100
GSM England Retail Ltd		England	Ordinary	100	100
GSM Espana Operations Sociedad Limitada		Spain	Ordinary	100	100
GSM Investments Ltd		USA	Ordinary	100	100
GSM Rocket Australia Pty Ltd		Australia	Ordinary	100	100
GSM Trading (Singapore) Pty Ltd		Australia	Ordinary	100	100
Honolua Surf International Ltd		USA	Ordinary	100	100
Nixon Europe SARL		France	Ordinary	100	100
Nixon Inc		USA	Ordinary	100	100
Nixon Pacific Pty Ltd		Australia	Ordinary	100	100
Pineapple Trademarks Pty Ltd	*	Australia	Ordinary	100	100
Rocket Trademarks Pty Ltd	*	Australia	Ordinary	100	100
VeeZee, Inc		USA	Ordinary	100	100

* These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 37.

** The proportion of ownership interest is equal to the proportion of voting power held.

Note 37. Deed of cross guarantee

Billabong International Limited, GSM (Europe) Pty Ltd, GSM (Operations) Pty Ltd, GSM (Trademarks) Pty Ltd, Pineapple Trademarks Pty Ltd, Rocket Trademarks Pty Ltd, GSM (Central Sourcing) Pty Ltd, Amazon (New Zealand) Pty Ltd and GSM Trading (South Africa) Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained profits

The above companies represent a 'Closed Group' for the purposes of the Class Order.

Set out below is the condensed consolidated income statement, a consolidated statement of comprehensive income and a summary of movements in consolidated retained profits for the years ended 30 June 2010 and 30 June 2009 of the Closed Group consisting of Billabong International Limited, GSM (Europe) Pty Ltd, GSM (Operations) Pty Ltd, GSM (Trademarks) Pty Ltd, Pineapple Trademarks Pty Ltd, Rocket Trademarks Pty Ltd, GSM (Central Sourcing) Pty Ltd, Amazon (New Zealand) Pty Ltd and GSM Trading (South Africa) Pty Ltd.

	2010 $'000	2009 $'000
Income statement		
Revenue from continuing operations	890,952	757,580
Other income	3,603	10,996
Finance costs	(9,786)	(30,067)
Other expenses	(656,248)	(529,642)
Profit before income tax	228,521	208,867
Income tax expense	(43,803)	(45,514)
Profit for the year	184,718	163,353
Loss attributable to non-controlling interests	822	---
Profit for the year attributable to the members of the closed group	185,540	163,353
Statement of comprehensive income		
Profit for the year	184,718	163,353
Other comprehensive income		
Changes in the fair value of cash flow hedges, net of tax	7,690	(3,825)
Exchange differences on translation of foreign operations	(26,703)	29,312
Net investment hedge, net of tax	(7,940)	(16,493)
Other comprehensive income for the year, net of tax	(26,953)	8,994
Total comprehensive income for the year	157,765	172,347
Loss attributable to non-controlling interests	822	---
Total comprehensive income for the year attributable to members of the closed group	158,587	172,347
Summary of movements in consolidated retained profits		
Retained profits at the beginning of the financial year	452,178	404,612
Profit for the year	185,540	163,353
Dividends paid	(90,878)	(115,787)
Retained profits at the end of the financial year	546,840	452,178

Note 37. Deed of cross guarantee (continued)

(b) Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2010 and 30 June 2009 of the Closed Group consisting of the entities as named above at each point in time.

	2010 $'000	2009 $'000
ASSETS		
Current assets		
Cash and cash equivalents	108,404	233,607
Trade and other receivables	174,131	196,589
Inventories	99,179	111,698
Other	12,516	6,609
Total current assets	394,230	548,503
Non-current assets		
Receivables	297,963	111,239
Other financial assets	539,276	453,140
Property, plant and equipment	56,131	60,240
Intangible assets	187,687	182,494
Deferred tax assets	17,623	15,288
Other	2,251	2,907
Total non-current assets	1,100,931	825,308
Total assets	1,495,161	1,373,811
LIABILITIES		
Current liabilities		
Trade and other payables	109,931	124,232
Borrowings	1,294	1,549
Current tax liabilities	11,143	---
Provisions	5,238	8,218
Total current liabilities	127,606	133,999
Non-current liabilities		
Borrowings	162,573	122,091
Deferred tax liabilities	9,635	4,465
Provisions	2,806	2,541
Other	11,361	1,637
Total non-current liabilities	186,375	130,734
Total liabilities	313,981	264,733
Net assets	1,181,180	1,109,078
EQUITY		
Contributed equity	671,761	659,012
Reserves	(38,241)	(2,112)
Retained profits	546,840	452,178
Capital and reserves attributable to members of the closed group	1,180,360	1,109,078
Non-controlling interests	820	---
Total equity	1,181,180	1,109,078

Note 38. Events occurring after the balance sheet date

On 30 June 2010, the Group announced that it had entered into a definitive acquisition agreement with West 49 Inc, a leading Canadian speciality retailer of apparel, footwear, accessories and equipment related to the youth action sports lifestyle. The operating results and assets and liabilities of the business will be consolidated from the time all conditions required for contractual completion have been satisfied, therefore the financial effects of the transaction have not been brought to account at 30 June 2010. It is anticipated the acquisition will be completed by the end of August 2010, subject to the approval of not less than two-thirds of the votes cast by West 49 securityholders at a special meeting to be held on 24 August 2010.

The purchase price represents an enterprise value of C$99.0 million (A$110.4 million) based on a fully diluted equity value of approximately C$90.2 million (A$100.6 million) and net debt of C$8.8 million (A$9.8 million) as of 30 April 2010. The transaction will be funded from the Group's existing debt facilities.

On 12 July 2010, the Group announced the acquisition of RVCA, a progressive art and design-driven brand. The conditions for contractual completion were satisfied on 21 July 2010 and therefore the financial effects of the transaction have not been brought to account at 30 June 2010.

On 4 August 2010, the Group renegotiated its Syndicated Revolving Multi-Currency Facility which included:

- an increase in the total facility balance from US$483.5 million to US$790.0 million to be split equally between the two tranches under the facility;
- an extension to 1 July 2013 of the three year tranche of the facility, to remain a three year facility; and
- an extension to 1 July 2014 of the three year tranche of the facility, to become a four year facility.

On 20 August 2010, the Group announced that it had reached conditional agreement to acquire the 36-door Rush Surf retail chain in Australia. It is anticipated that the purchase will complete in October 2010 and therefore the financial effects of the transaction have not been brought to account at 30 June 2010.

Note 39. Reconciliation of profit for the year to net cash inflow from operating activities

	Consolidated	
	2010 $'000	2009 $'000
Profit for the year, before non-controlling interest	145,166	152,839
Depreciation and amortisation	35,572	38,134
Impairment of retail store fixed assets	---	9,476
Share-based payment amortisation expense	5,325	319
Provisions: unwinding of discount	2,807	2,679
Net loss on sale of non-current assets	628	450
Net exchange differences	(1,401)	(2,415)
Change in operating assets and liabilities, excluding effects from business combinations;		
(Increase)/decrease in trade debtors	(46,174)	(34,368)
(Increase)/decrease in inventories	2,002	121
(Increase)/decrease in deferred tax assets	(6,015)	(11,697)
(Increase)/decrease in provision for income taxes receivable	9,370	(7,679)
(Increase)/decrease in other operating assets	21,709	(14,583)
Increase/(decrease) in trade creditors and other operating liabilities	6,468	22,815
Increase/(decrease) in provision for income taxes payable	9,142	15,909
Increase/(decrease) in deferred tax liabilities	4,356	1,777
Increase/(decrease) in other provisions	(1,708)	1,908
Net cash inflow from operating activities	187,247	175,685

Note 40. Non-cash investing and financing activities

	Consolidated	
	2010 **$'000**	2009 $'000
Acquisition of plant and equipment by means of finance lease	22	---
	22	---

Dividends satisfied by the issue of shares under the dividend reinvestment plan are shown in note 28.

Note 41. Earnings per share

	Consolidated	
	2010 **Cents**	2009 Cents
(a) Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the Company	58.3	69.2
(b) Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the Company	57.8	68.7

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

	Consolidated	
	2010 **$'000**	2009 $'000
Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share from continuing operations	145,988	152,839
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share from continuing operations	145,988	152,839

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

	Consolidated	
	2010 **Number**	2009 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	250,483,588	220,737,879
Adjustments for calculation of diluted earnings per share:		
Performance shares and conditional rights	2,063,782	1,719,746
Options	---	---
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	252,547,370	222,457,625

(e) Information concerning the classification of securities

Rights
Rights granted to employees under the Billabong Executive Performance Share Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The rights have been excluded in the determination of basic earnings per share. Details relating to the rights are set out in note 42.

Note 41. Earnings per share (continued)

Options
Options granted to employees under the Billabong Performance and Retention Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 42.

The 1,782,183 options granted on 31 October 2008 and the 314,503 options granted on 24 November 2008 are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2010. These options could potentially dilute basic earnings per share in the future.

Note 42. Share-based payments

(a) Billabong Executive Performance Share Plan ("EPSP")

Following the review of executive remuneration undertaken by the Committee in 2008, the EPSP was restructured into Tier 1 and Tier 2.

EPSP – Tier 1
Tier 1 participants comprise the executives of the Group who are directly responsible for driving the growth strategy of the Group. The objectives of the EPSP for Tier 1 participants remain the same i.e. to provide executives with an equity-based reward opportunity that vests based on the Group's three year EPS performance. The establishment of the EPSP was approved by shareholders at the 2004 Annual General Meeting.

Under the Plan the Group awards the following equity subject to the tax implications in the relevant jurisdiction.

Equity vehicle	Overview
Tier 1 Performance shares	An employee awarded performance shares is not legally entitled to shares in the Company before the performance shares allocated under the Plan vest. However, the employee can vote and receive dividends in respect of shares allocated to them. For Australian employees, once the shares have vested they remain in the trust until the earlier of the employee leaving the Group, the tenth anniversary of the date the performance shares were awarded or the Board approving an application for their release. For non-Australian employees, once their performance shares vest the shares are transferred to them (or sold on their behalf if they choose). However, if the performance shares do not vest, they are forfeited by the employee (for no consideration).
Tier 1 Conditional rights	An employee awarded conditional rights is not legally entitled to shares in the Company before the rights allocated under the Plan vest. Once vested, each right entitles the employee to receive one share in the Company. For French employees granted rights after 1 July 2005, shares associated with vested rights are automatically transferred to the employee. These shares cannot be disposed of before the end of a 24 month Restriction Period following the allocation date, except in the event of death. Until such time that the rights have vested the employee cannot use the rights to vote or receive dividends. For all other employees, from the time of the employee receiving notice of the rights having vested they have one month to exercise the rights and either sell the shares or transfer them into their name. If the rights are not exercised by the employee they will automatically exercise and the shares will be transferred to the employee. Until such time that the rights are exercised the employee cannot use the rights to vote or receive dividends. However, if the conditional rights do not vest, they are forfeited by the employee (for no consideration).

Note that for the purposes of the remuneration tables in this report, performance shares and conditional rights are collectively referred to as "rights".

Award, vesting and exercises under the Plan are made for no consideration.

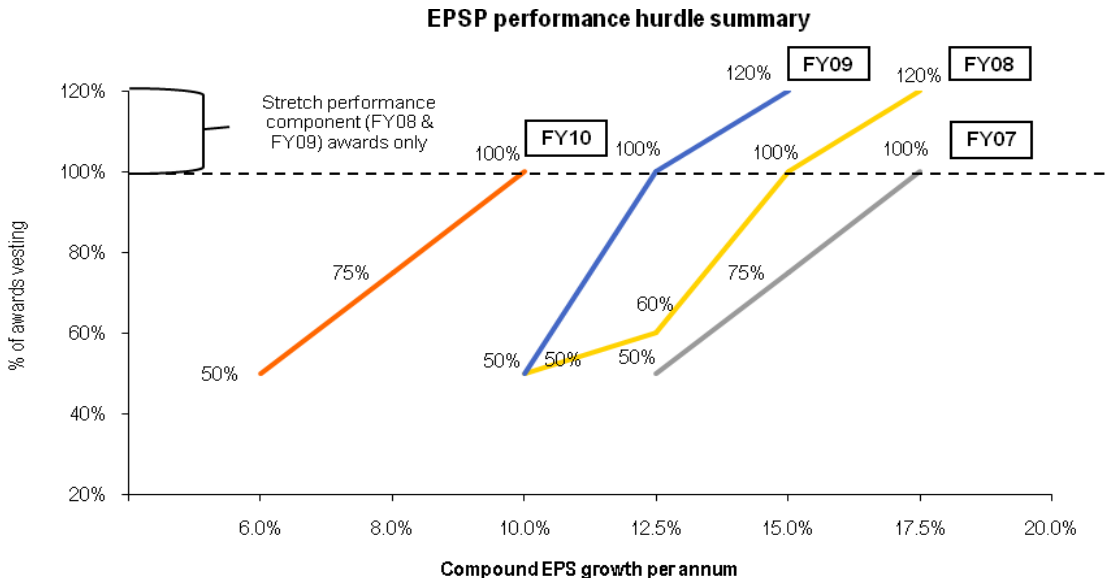
Note 42. Share-based payments (continued)

(a) Billabong Executive Performance Share Plan (continued)

Awards under the Plan vest on the third anniversary of grant only if the EPS performance hurdles are satisfied in the relevant performance period. The performance periods are summarised in the table below:

Grant	Performance period
2007/08	2006/07 (base year EPS) to 2009/10
2008/09	2007/08 (base year EPS) to 2010/11
2009/10	2008/09 (base year EPS) to 2011/12

The following chart summarises the EPS performance hurdles for outstanding unvested grants and the grants made in financial years ended 30 June 2007 and 30 June 2008 (which vested following the close of the financial years ended 30 June 2009 and 30 June 2010 respectively).



The Board selected EPS as the appropriate hurdle for the Plan as the Plan is intended to focus executives on the long-term (three year) earnings performance of the Group.

Each year, prior to awards being granted, the Human Resource and Remuneration Committee considers the market environment, the Group's business strategy and performance expectations and shareholder expectations and sets the performance targets for the awards to be granted that year. Due to the growth of the Group and the challenges of maintaining the high growth rate of earnings from a resulting higher EPS base, the targets, set at grant, differ for each of the 2006/07, 2007/08, 2008/09 and 2009/10 grants.

Details of the awards to Executive Directors, Derek O'Neill and Paul Naude in the 2010/11 financial year will be set out for shareholder approval in the Notice of Meeting and Explanatory Memorandum for the Company's 2010 Annual General Meeting.

At the end of the relevant performance period, in line with its charter, the Human Resource and Remuneration Committee consider the EPS performance of the Group on both a reported and constant currency basis and determines to what extent the awards should vest based on the above vesting conditions.

EPSP - Tier 2
Tier 2 participants comprise other senior management of the Group, including one of the key management personnel, President, Element Skateboards, Inc. The primary objective of the Tier 2 EPSP is retention. Under the Plan, Tier 2 participants are awarded performance shares and conditional rights. The awards do not vest unless the employee has completed a period of two years of employment from the date the awards are granted.

Note 42. Share-based payments (continued)

(a) Billabong Executive Performance Share Plan (continued)

The Group awards the following equity subject to the tax implications in the relevant jurisdiction:

Equity vehicle	Overview
Tier 2 Performance shares	An employee awarded performance shares is not legally entitled to shares in the Company before the performance shares allocated under the Plan vest. However, the employee can vote and receive dividends in respect of shares allocated to them. Once the shares have vested the shares are transferred to the employee. However, if the performance shares do not vest, they are forfeited (for no consideration).
Tier 2 Conditional rights	An employee awarded conditional rights is not legally entitled to shares in the Company before the rights allocated under the Plan vest. Once vested, each right entitles the employee to receive one share in the Company. Until such time that the rights are exercised the employee cannot use the rights to vote or receive dividends. However, if the conditional rights do not vest, they are forfeited (for no consideration).

Set out below is a summary of equity based rights (performance shares and conditional rights) awarded under the Plan:

Type of right	Grant date	Performance determination date	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of year Number
Consolidated – 2010							
Performance Shares	1 October 2006	30 June 2012	1,538,680	716,143	---	(427,204)	1,827,619
Conditional Rights	1 October 2006	30 June 2012	288,155	156,269	---	(79,610)	364,814
			1,826,835	872,412	---	(506,814)	2,192,433
Consolidated – 2009							
Performance Shares	1 December 2005	30 June 2011	1,348,249	588,029	(302,745)	(94,853)	1,538,680
Conditional Rights	1 December 2005	30 June 2011	245,347	112,643	(61,107)	(8,728)	288,155
			1,593,596	700,672	(363,852)	(103,581)	1,826,835

None of the rights awarded under the Plan vested or became exercisable during the year.

The total equity based rights that expired during the year ended 30 June 2010 and have not yet been granted under a new award was 23,318 (2009: 58,466). These expired equity based rights are held pending in the Plan until further awards are made.

Fair value of rights granted
The assessed fair value at grant date of rights granted under the Billabong Executive Performance Share Plan during the year ended 30 June 2010 was $10.51 per right (2009: $12.91). The fair value at grant date is determined by reference to the Billabong International Limited share price at grant date, taking into account the terms and conditions upon which the rights were granted, the expected dividend yield and the expected price volatility of the underlying share.

(b) Billabong Executive Performance and Retention Plan ("EPRP")

The establishment of the Executive Performance and Retention Plan was approved at the Annual General Meeting ("AGM") of the Company held on 28 October 2008. The Executive Performance and Retention Plan is designed to retain and effectively reward key senior executives over a five year period for growing the market value of the Group and delivering returns to shareholders. Under the Plan, the executive team are granted options. The options will only vest if certain performance hurdles are met and if the individual is still employed by the Group at the end of the vesting period.

Note 42. Share-based payments (continued)

(b) Billabong Executive Performance and Retention Plan (continued)

Vesting of the options is subject to the Company's Total Shareholder Return (TSR) performance. TSR measures growth in the Company's share price, together with the value of dividends received during the relevant period. Two TSR performance hurdles must be achieved in order for awards to vest:

- A 'gateway' relative TSR hurdle of above median of a comparator group of companies over the five year performance period, measured from start of performance period to end of year five; and
- Absolute TSR hurdle with a 120% target (equivalent to approximately 12.8% share price growth p.a. over five years) to be achieved at any point over the five year performance period.

The comparator group for the relative TSR comparator group is the constituents of the S&P/ASX 100 Index at the start of the performance period (excluding companies in the Global Industry Classification Standard (GICS) name codes: 'Oil, Gas and Consumable Fuels' and 'Metals and Mining').

The use of a relative TSR hurdle gateway directly aligns executive reward and shareholder return by ensuring that executive are only rewarded for the absolute TSR performance if they are also in the "top half" of ASX 100 (excluding certain GICS industries) performers at the time performance is tested.

The use of the stretch absolute TSR performance target focuses executives on significantly growing the business in line with the strategic plan and generating strong returns for shareholders.

An early banking opportunity is also provided to executives, where the absolute and relative performance hurdles are satisfied. However, in order for the options to vest, the continued employment condition must be satisfied. The banking approach allows for executives to be rewarded for "early" high TSR performance. However, due to the continued employment requirement and the delivery vehicle being options, this Plan encourages sustained share price performance throughout the five year period and enhances the retention impact of the awards.

The performance hurdles and the early banking opportunities are summarised in the table below:

Date	**Year 3 test 30 June 2011**	**Year 4 test 30 June 2012**	**Year 5 test 30 June 2013**
Absolute TSR	80% TSR achieved at any time during the prior three years.	100% TSR achieved at any time during the prior four years.	120% TSR achieved at any time during the prior five years.
Relative TSR	Above median TSR performance achieved against comparator group of companies.	Above median TSR performance achieved against comparator group of companies.	Above median TSR performance achieved against comparator group of companies.
Banking	1/3 of total options.	2/3 of total options.	All options earned.

Once vested, the options remain exercisable for a period of two years.

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

When exercisable, each option is convertible into one ordinary share upon receipt of funds.

The exercise price of options is based on the weighted average price at which the Company's shares are traded on the Australian Securities Exchange during the five trading days immediately before the options are granted. Amounts received on the exercise of options are recognised as share capital.

Note 42. Share-based payments (continued)

(b) Billabong Executive Performance and Retention Plan (continued)

Set out below are summaries of options granted under the Plan.

Consolidated – 2010

Grant date	Expiry date	Exercise price	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of year Number	Exercisable at end of year Number
31 October 2008	31 October 2015	$11.08 *	1,782,183	---	---	---	1,782,183	---
24 November 2008	24 November 2015	$10.80	314,503	---	---	---	314,503	---
			2,096,686	---	---	---	2,096,686	---
Weighted average exercise price			$11.34	---	---	---	$11.04	---

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

Under the rules of the EPRP, the Board has the power to adjust the exercise price to take account of the entitlement offer. The purpose of this is to ensure that option holders are not unfairly advantaged or disadvantaged by the entitlement offer. Due to the increase in the Company's share capital as a result of the entitlement offer and the impact on the share price which could potentially affect the options granted under the EPRP, the exercise price has been adjusted in accordance with the ASX Listing Rules.

The formula under the ASX Listing Rules is:

$$O' = O - \frac{E[P-(S+D)]}{N+1}$$

The formula inputs for options granted on 31 October 2008 included:

O' = the new exercise price of the option
O = the old exercise price of the option
E = the number of underlying securities into which one option is exercisable
P = the volume weighted average market price per security of the underlying securities during the Company's five trading days ending on the day before the ex entitlement date
S = the subscription price for a security under the entitlement issue
D = the dividend due but not yet paid on the existing underlying securities (except those to be issued under the pro-rata issue)
N = the number of securities which must be held to receive a right to one new security

The calculation to determine the reduced exercise price for the options granted on 31 October 2008 is as follows:

$$O' = 11.43 - \frac{1[9.80 - (7.50 + 0)]}{5.5 + 1}$$

$$O' = 11.08$$

The options granted on 24 November 2008 relate to Franco Fogliato, General Manager, Billabong Europe who is a French resident and was granted options under a French sub-plan, which complies with French legal and tax requirements and which therefore restricts the ability to amend the exercise price of options after their grant date. As a result, the exercise price for these options were not adjusted and the terms of these options were not amended.

Note 42. Share-based payments (continued)

(b) Billabong Executive Performance and Retention Plan (continued)

Consolidated – 2009

Grant date	Expiry date	Exercise price	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of year Number	Exercisable at end of year Number
31 October 2008	31 October 2015	$11.43	---	1,782,183	---	---	1,782,183	---
24 November 2008	24 November 2015	$10.80	---	314,503	---	---	314,503	---
			---	2,096,686	---	---	2,096,686	---
Weighted average exercise price			---	$11.34	---	---	$11.34	---

Fair value of options granted
The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using the Monte-Carlo simulation option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2009 included:	Grant Date 31 October 2008	Grant Date 24 November 2008
(a) exercise price:	$11.43	$10.80
(b) vesting date:	31 October 2013	24 November 2013
(c) expiry date:	31 October 2015	24 November 2015
(d) share price at grant date	$11.92	$9.60
(e) expected price volatility of the Company's shares:	30%	30%
(f) expected dividend yield:	3.80%	4.20%
(g) expected life:	6.0 years	6.0 years
(h) risk free interest rate:	4.84%	4.20%

(i) options are granted for no consideration and vest based on the Company's TSR, including share price growth, dividends and capital returns compared to the TSR of the constituents of the S&P/ASX 100 Index at the start of the performance period (excluding companies under the Global Industry Classification Standard name codes: 'Oil, Gas and Consumable Fuels' and 'Metals and Mining') over a five year period. Vested options are exercisable for a period of two years after vesting.

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefits expense were as follows:

	Consolidated 2010 $'000	Consolidated 2009 $'000
Operating costs of the Billabong Executive Performance Share Plan	20	19
Share-based payment expense	5,325	319
	5,345	338

Note 43. Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Parent entity	
	2010	2009
	$'000	$'000
Balance sheet		
Current assets	42,423	153,653
Total assets	1,182,390	1,061,358
Current liabilities	3,691	1,514
Total liabilities	377,229	314,858
Shareholders' equity		
Issued capital	671,761	659,012
Reserves		
Option reserve	18,202	12,877
Cash flow hedge reserve	---	(796)
Retained earnings	115,198	75,407
	805,161	746,500
Profit or loss for the year	130,669	117,873
Total comprehensive income	130,669	117,077

(b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2010 or 30 June 2009.

(c) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2010, the parent entity had no contractual commitments for the acquisition of property, plant or equipment.

(d) Guarantees entered into by the parent entity

Billabong International Limited is a party to the deed of cross guarantee as described in note 37. No deficiencies of assets exist in any of the companies described in note 37.

Directors' declaration : :

In the Directors' opinion:

(a) the financial statements and notes set out on pages 39 to 118 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

   (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 37 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 37.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

Ted Kunkel
Chairman

Gold Coast
20 August 2010

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

Report on the financial report

We have audited the accompanying financial report of Billabong International Limited (the company), which comprises the balance sheet as at 30 June 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Billabong Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Billabong International Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 14 to 27 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Billabong International Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Billabong International Limited (the Company) for the year ended 30 June 2010 included on Billabong International Limited's web site. The Company's directors are responsible for the integrity of Billabong International Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

Robert Hubbard
Partner

Brisbane
20 August 2010

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The shareholder information set out below was applicable as at 16 August 2010.

Distribution of Equity Securities
Analysis of numbers of equity security holders by size of holding:

	Ordinary shares		Unquoted options	
	Number of share holders	Number of shares	Number of option holders	Number of options
1 – 1,000	14,289	5,906,850	---	---
1,001 – 5,000	6,675	14,186,291	---	---
5,001 – 10,000	675	4,681,421	---	---
10,001 – 100,000	345	7,904,067	---	---
100,001 and over	64	220,443,923	5	2,096,686
	22,048	253,122,552	5	2,096,686

There were 998 holders of less than a marketable parcel of ordinary shares.

Equity Security Holders

Twenty largest quoted equity security holders
The names of the twenty largest holders of quoted equity securities are listed below:

	Ordinary shares	
Name	**Number held**	**Percentage of issued shares**
HSBC Custody Nominees (Australia) Limited	43,256,012	17.09%
J P Morgan Nominees Australia Limited	39,070,171	15.44%
Gordon Merchant	37,770,098	14.92%
National Nominees Limited	32,984,219	13.03%
Citicorp Nominees Pty Limited	15,510,169	6.13%
Citicorp Nominees Pty Limited <CFS Wsle Geared Shr Fnd A/C>	11,072,343	4.37%
Jontex Pty Ltd	9,306,839	3.68%
ANZ Nominees Limited <Cash Income A/C>	4,419,936	1.75%
Colette Paul	2,973,289	1.17%
Cogent Nominees Pty Limited	2,714,798	1.07%
RBC Dexia Investor Services Australia Nominees Pty Limited	2,280,859	0.90%
Australian Reward Investment Alliance	1,928,657	0.76%
AMP Life Limited	1,341,148	0.53%
Citicorp Nominees Pty Limited <Cfsil Cwlth Aust Shs 1 A/C>	1,210,000	0.48%
Argo Investments Limited	1,180,528	0.47%
Paul Naude	1,105,988	0.44%
CPU Share Plans Pty Limited <BBG PSP Aus Control A/C>	1,056,056	0.42%
Derek O’Neill	970,962	0.38%
CRS Nominees Ltd <BBG EPS Int Control A/C>	939,378	0.37%
RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/C>	774,779	0.31%
	211,866,229	83.70%

Unquoted Equity Securities		**Number on issue**	**Number of holders**
Options issued under the Executive Performance and Retention Plan as approved by shareholders at the Annual General Meeting of 28 October 2008:			
Class – BBGAI		1,782,183	4
Class – BBGAK		314,503	1

The options listed above are the only unquoted equity securities on issue.

The following people hold 20% or more of these securities:

Class – BBGAI	Derek O’Neill	629,007
	Paul Naude	524,170
Class – BBGAK	Franco Fogliato	314,503

Substantial Holders

As at 16 August 2010 the names of substantial holders in the Company who have notified the Company in accordance with Section 671B of the *Corporations Act 2001* are set out below:

Ordinary Shares	**Number**	**Percentage**
Gordon Stanley Merchant & Gordon Merchant No. 2 Pty Ltd	33,013,703	15.95%
Commonwealth Bank of Australia	20,856,900	8.25%
The Capital Group Companies Inc	16,663,415	6.58%
Concord Capital Ltd	14,847,380	6.09%
Maple-Brown Abbott Limited	12,816,606	5.06%

Voting Rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares
On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) Options
No voting rights.

Stock Exchange Listing

The shares of the Company are listed under the symbol BBG on the Australian Securities Exchange. The Company's home branch is Brisbane.

Shareholder Enquiries

Shareholders with queries about their shareholdings should contact the Company’s Share Registry as follows:

Computershare Investor Services Pty Ltd
GPO Box 523
BRISBANE QLD 4001

Telephone Australia: 1 300 552 270
Telephone International: (+61 3) 9415 4000
Fax: (+61 7) 3237 2152
Email: web.queries@computershare.com.au

Change of Address

Issuer sponsored shareholders should notify the share registry in writing immediately upon any change in their address quoting their Securityholder Reference Number (SRN). Changes in addresses for broker sponsored holders should be directed to the sponsoring brokers with the appropriate Holder Identification Number (HIN).

Dividends
Dividend payments, where possible, may be paid directly to a nominated financial institution in Australia, New Zealand, United Kingdom or United States. Payments are electronically credited on the dividend payment date and confirmed by payment advices mailed directly to the shareholder's registered address. A form for this purpose is available from Computershare Investor Services Pty Ltd. Billabong International Limited also pays dividends by local currency cheque to shareholders who maintain a registered address in the following jurisdictions:

Hong Kong - $HK, Japan - Yen, Europe - Euro, United States - $US

If a shareholder has not provided direct credit instructions to have their dividend paid directly into a nominated financial institution or they do not have their shareholding registered in one of the above four countries, then by default they will receive an Australian dividend cheque.

Annual Report
Due to recent legislation changes the Company has elected to distribute Annual Reports by making them available on the website. Hard copies of the Annual Reports will only be sent to shareholders requesting one.

Tax File Numbers (TFN)
Billabong International Limited is obliged to deduct tax from unfranked or partially franked dividends paid to shareholders registered in Australia who have not provided their TFN to the Company. If you wish to provide your TFN, please contact the Share Registry.

Consolidation of Multiple Shareholdings
If you have multiple shareholding accounts that you wish to consolidate into a single account, please advise the Share Registry in writing. If your holdings are broker sponsored, please contact the sponsoring broker directly.

Become an Online Shareholder
Billabong International Limited offers shareholders an electronic service that enables them to be kept up-to-date with significant Company announcements as they happen. By subscribing for this service, shareholders can elect not to receive a printed annual report and to view the annual report online in the future. Shareholders can also access their current shareholding details and update many of these details online.

To register, shareholders should visit the share registry at www.computershare.com/easyupdate/bbg and enter your personal securityholder information (eg Holder Identification Number (HIN) or Securityholder Reference Number (SRN)) and postcode, then click on 'Submit'.

After the shareholder has entered their email address and selected which publications they wish to receive via email, an email will be sent to the shareholder for confirmation purposes. When received, the shareholder should simply click 'Reply' to confirm their details, then 'Send'.

Shareholders can also visit the Company's website at www.billabongbiz.com, where they can view:

- Annual and half-year reports
- Stock Exchange announcements
- Billabong's share price information
- General shareholder information

GROUP OPERATING *centres*

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