Billabong International Limited

ABN 17 084 923 946

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: : INTERIM FINANCIAL REPORT 31 DECEMBER 2011

This interim financial report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2011 and any public announcements made by Billabong International Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

Billabong International Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:
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Corporate website: www.billabongbiz.com

APPENDIX 4D
Half-yearly Report

Billabong International Limited
ABN 17 084 923 946

Extracts from this report for announcement to the market.

	Half-year			
	2011 $'000	2010 $'000	Change $'000	%
Total revenue from ordinary activities	849,834	837,102	12,732	1.5%
Profit from ordinary activities after tax attributable to members	16,097	57,157	(41,060)	(71.8%)
Net profit for the period attributable to members	16,097	57,157	(41,060)	(71.8%)

Dividends	Amount per Security	Franked amount per security
Interim dividend	3.0 cents	0.0 cents
Previous corresponding period interim dividend	16.0 cents	8.0 cents

Record date for determining entitlements to the dividend is 19 March 2012.

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

For the interim dividend to be paid on 19 April 2012, the Dividend Reinvestment Plan (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 less a discount of 2.5%. A shareholder can elect to participate in or terminate their involvement in the DRP in respect of the 2012 interim dividend at any time prior to the record date of 19 March 2012. The DRP will be underwritten to 100% of the 2012 interim dividend by Goldman Sachs. The terms of the DRP may be varied for future dividends beyond the interim dividend for the half-year ended 31 December 2011.

Explanation of Results

Please refer to the Review of Operations within the Directors' Report for an explanation of the results.

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Billabong International Limited (the Company) and the entities it controlled at the end of, or during, the half-year ended 31 December 2011.

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

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

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

Review of operations
A summary of consolidated revenues and results for the half-year by significant geographical segments is set out below:

Segment	**Segment revenues**		**Segment EBITDA ***	
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000
Australasia	295,908	269,267	26,960	40,314
Americas	400,794	408,412	30,139	29,088
Europe	150,474	157,238	15,643	24,066
Third party royalties	1,311	1,136	1,311	1,136
	848,487	836,053	74,053	94,604
Less: Depreciation and amortisation			(22,058)	(20,322)
Impairment charge			(14,986)	---
Net interest expense			(14,207)	(12,023)
Profit from continuing operations before income tax expense			22,802	62,259
Income tax expense			(6,827)	(5,102)
Profit from continuing operations after income tax expense			15,975	57,157
Loss attributable to non-controlling interest			122	---
Profit attributable to the members of Billabong International Limited			16,097	57,157
Add back: Impairment charge			14,986	---
Profit attributable to the members of Billabong International Limited before impairment charge			31,083	57,157

* 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). Included in EBITDA for the half-year ended 31 December 2011 are one-off acquisition related costs ("M&A") and restructuring costs of $5.1 million which are non-recurring in nature.

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

Consolidated Result
Net Profit After Tax (NPAT) for the half-year ended 31 December 2011 was $16.1 million, a decrease of 70.8% in constant currency terms (a decrease of 71.8% in reported terms) compared to the prior corresponding period (pcp). Excluding the after-tax impact of an impairment charge expense of $15.0 million, the NPAT for the half-year ended 31 December 2011 was $31.1 million, a decrease of 43.7% in constant currency terms (a decrease of 45.6% in reported terms) compared to the pcp.

Review of operations (continued)

Reported NPAT was adversely impacted by the unfavourable effect of the appreciation of the AUD, in particular against the Euro and the USD relative to the pcp.

Group sales revenue of $847.2 million, excluding third party royalties, represents a 6.3% increase on the pcp in constant currency terms (up 1.5% in reported terms). At a segment level, in constant currency terms, sales revenue in the Americas increased 5.1%, Europe was flat and Australasia increased 11.7% over the pcp.

Consolidated gross margins were 53.4% (54.4% in the pcp in constant currency terms).

EBITDA of $74.1 million represents a decrease of 18.3% in constant currency terms (a decrease of 21.7% in reported terms) compared to the pcp. The consolidated EBITDA margin of 8.7% decreased by 2.6% points compared to that of the pcp of 11.3%. The lower EBITDA was driven, in particular, by factors including:

- lower than anticipated sales in the important trading periods of November and early December in Europe and Australia leading to lower gross profit on a higher fixed cost base;
- gross profit pressure from higher product input costs, including cotton, and the inability to recover the cost increases in a highly price-sensitive retail environment;
- a highly promotional environment at both wholesale and retail in Australia and Europe and, to a lesser extent, the US; and
- aggressive clearance of inventory in the midst of an already highly promotional retail environment.

The EBITDA result also includes one-off M&A and restructuring costs totalling $5.1 million.

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

Australasia
Compared to the pcp in reported terms, sales revenue increased 9.9% to $295.9 million (up from $269.3 million) and EBITDA decreased 33.1% to $27.0 million (down from $40.3 million). EBITDA margins were lower at 9.1% compared with 15.0% in the pcp, principally reflecting the combined impact of a very weak retail environment in Australia and extremely difficult trading conditions in South Africa offset in part by the abovementioned allocation of lower global overhead costs. Excluding the allocation of global overhead costs, EBITDA margins were 11.8% compared with 19.3% in the pcp.

Compared to the pcp in constant currency terms, sales revenue increased 11.7% and EBITDA decreased 31.6%.

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

Sales revenue lifted strongly compared to the pcp in constant currency terms in Asia.

Americas
Compared to the pcp in reported terms, sales revenue decreased 1.9% to $400.8 million (down from $408.4 million) and EBITDA increased 3.6% to $30.1 million (up from $29.1 million). EBITDA margins were higher at 7.5% compared with 7.1% in the pcp, principally reflecting the increase in margins in West 49, the abovementioned allocation of lower global overhead costs offset by costs associated with the account base restructure in South America. Excluding the allocation of global overhead costs, EBITDA margins were 10.2% compared with 11.4% in the pcp.

Compared to the pcp in constant currency terms, sales revenue increased 5.1% and EBITDA increased 12.1%.

Review of operations (continued)

Europe
Compared to the pcp in reported terms, sales revenue decreased 4.3% to $150.5 million (down from $157.2 million) and EBITDA decreased 35.0% to $15.6 million (down from $24.1 million). EBITDA margins of 10.4% were down compared to the pcp of 15.3%, principally reflecting the impact of European sovereign debt issues with shortfalls in wholesale repeat business experienced in the lead up to Christmas and higher product input costs offset in part by the abovementioned allocation of lower global overhead costs. Excluding the allocation of global overhead costs, EBITDA margins were 13.0% compared with 19.6% in the pcp.

Compared to the pcp in constant currency terms, sales revenue was flat and EBITDA decreased 32.4%.

Depreciation and Amortisation Expense
Depreciation and amortisation expense increased 14.2% in constant currency terms (8.5% in reported terms) compared to the pcp primarily due to the inclusion of a full half-year of trading for the prior year acquisitions of RVCA, West 49, SDS/Jetty Surf, Rush Surf and retail store expansion.

Impairment Charge Expense
As a result of the impairment review of intangible assets, goodwill in South Africa has been written down to its recoverable amount, being its fair value less costs to sell. For the half-year ended 31 December 2011, this resulted in an impairment charge amounting to $15.0 million.

Net Interest Expense
Net interest expense increased 26.1% in constant currency terms (18.2% in reported terms) compared to the pcp, driven primarily by the inclusion of a full half-year of borrowings for the abovementioned prior year acquisitions and increased borrowings to fund the payment of part of the deferred consideration payment for Nixon and working capital requirements.

Income Tax Expense
The income tax expense for the half-year ended 31 December 2011 was $6.8 million (2010: $5.1 million), an effective rate of tax of 29.9% (2010: 8.2%). The higher effective tax rate is primarily driven by the current year impairment charge (which is non-deductible) and a number of one-off benefits being included in the prior year. Adjusting for these one-off amounts, the effective tax rate for the Group is 18.1% (2010: 24.0%). The adjusted lower effective tax rate for the half-year ended 31 December 2011 reflects in part the impact of net exempt income from branch operations, in particular GSM (Europe) Pty Ltd, consistent with the Group's changing segment mix.

Consolidated Balance Sheet, Cash Flow Items and Capital Expenditure
Working capital at $428.3 million represents 25.4% as a percentage of the prior twelve months' sales stated at half-year end exchange rates, being 0.6% lower compared to the pcp of 26.0%.

Including in the pcp the pre-acquisition sales of RVCA and the significant retail acquisitions of West 49, SDS/Jetty Surf and Rush Surf and excluding any wholesale sales made to these accounts prior to acquisition, working capital represents 25.4% as a percentage of the prior twelve months' sales stated at year end exchange rates, being 2.5% higher compared to the pcp of 22.9%, reflecting an increase in inventory primarily as a result of weaker than expected trading but also reflecting the impact of cost increases.

Cash inflow from operating activities increased to $87.0 million, being 36.5% higher compared to $63.8 million in the pcp, principally reflecting higher net cash receipts from customers, lower finance costs (the pcp included costs associated with the rollover and extension of the Syndicated Debt Facility) and lower tax payments.

Net cash receipts from customers of $108.7 million were 8.1% higher compared to $100.6 million in the pcp representing 146.8% of EBITDA compared to 106.3% for the pcp reflecting strong trading cash flows for the period relative to EBITDA.

Cash outflow from investing activities of $90.0 million was in accordance with expectations and includes the payment of part of the deferred consideration payment for Nixon and investment in owned retail globally.

Net debt increased 37.3% to $525.6 million over the pcp which principally reflects the payment of part of the deferred consideration for Nixon, investment in owned retail globally and working capital requirements. The Group has a gearing ratio (net debt to net debt plus equity) of 31.2% as at 31 December 2011 (24.6% in the pcp) and interest cover of 4.2 times (8.8 times in the pcp).

Matters subsequent to the end of the half-year

On 17 February 2012 the Group announced that it had entered into definitive agreements with Trilantic Capital Partners for the sale of approximately 48.5% of Nixon. The Group will retain 48.5% of Nixon, while Nixon's management will purchase a 3% stake. The transaction values 100% of Nixon at approximately US$464.0 million, representing a multiple of approximately 9.2 times the last twelve months' EBITDA. The Group expects to realise net proceeds of approximately US$285.0 million (Net proceeds are approximate and net of all transaction costs and taxes. Net proceeds are pending receipt of final tax opinions and may reduce by up to US$45 million. The Group has sought advice in advance from the relevant tax authorities) as a result of this transaction, all of which will be used to repay existing debt and reduce the limit on the Group's financing facilities provided by its banking syndicate.

The operating results and assets and liabilities of the business will be deconsolidated from the time all conditions required for contractual completion have been satisfied. It is anticipated the transaction will be completed within 90 days, subject to certain anti-trust approval and customary closing conditions. This transaction is expected to result in a significant one-off gain in the Group's income statement in the year ending 30 June 2012, which cannot be calculated at this point in time as the transaction has not been completed.

On 17 February 2012 the Group announced that it is undertaking a review of its retail network with a view to closing loss-making stores and stores performing below expectations. While the review remains work in progress it is expected that the number of store closures will fall somewhere in the range of 100 to 150 stores. As part of this review, the Group is targeting a range of $20 million to $30 million reduction in rent expense and a resultant increase in EBITDA in the range of $5 million to $10 million for the year ending 30 June 2013. The closures will result in a one-off charge in the Group's income statement in the year ending 30 June 2012, which cannot be calculated at this point in time.

In addition to the above, the Group has also undertaken a review of its cost base and plans to reduce costs by approximately $30 million for the year ending 30 June 2013. The savings will come from all regions and all areas of the business, including head office overheads; supply chain rationalisation; retail corporate overheads; and streamlining the company's marketing expenditure.

The store closures mentioned above and the cost reduction program will result in full-time and casual job losses. Full-time job losses will be approximately 400 worldwide, including up to 80 in Australia. The company will seek to minimise forced job losses by redeploying staff from closed stores to other Billabong retail stores wherever possible and through natural staff attrition. The fluctuating nature of seasonal retail and the timing of store closures will impact the ultimate number of casual job losses.

Other than those items mentioned above, there has not arisen in the interval between the end of the half-year and the date of this report any item, transaction or event of a material and unusual nature 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.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 7.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report and financial report. Amounts in the Directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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

Ted Kunkel
Chairman
Gold Coast, 17 February 2012

Auditor's independence declaration

As lead auditor for the review of Billabong International Limited for the half-year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Steven Bosiljevac
Partner
PricewaterhouseCoopers

Brisbane, 17 February 2012

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Income statement

For the half-year ended 31 December 2011 : :

	Notes	Half-year **2011** **$'000**	Half-year 2010 $'000
Revenue from continuing operations		849,834	837,102
Cost of goods sold		(394,511)	(381,778)
Other income		3,561	290
Selling, general and administrative expenses		(316,366)	(286,598)
Other expenses		(85,404)	(86,842)
Impairment charge	2	(14,986)	---
Finance costs		(19,326)	(19,915)
Profit before income tax		22,802	62,259
Income tax expense		(6,827)	(5,102)
Profit for the half-year		15,975	57,157
Loss attributable to non-controlling interests		122	---
Profit for the half-year attributable to the members of Billabong International Limited		16,097	57,157
Earnings per share for profit attributable to the ordinary equity holders of the Company		Cents	Cents
Basic earnings per share		6.4	22.8
Diluted earnings per share		6.3	22.6

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

	Half-year **2011** **$'000**	Half-year 2010 $'000
Profit for the half-year	15,975	57,157
Other comprehensive income		
Changes in the fair value of cash flow hedges, net of tax	3,495	(2,647)
Exchange differences on translation of foreign operations	(31,210)	(52,934)
Net investment hedge, net of tax	8,554	(7,965)
Other comprehensive expense for the half-year, net of tax	(19,161)	(63,546)
Total comprehensive expense for the half-year	(3,186)	(6,389)
Loss attributable to non-controlling interests	122	---
Total comprehensive income for the half-year attributable to members of Billabong International Limited	(3,064)	(6,389)

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

Balance sheet
As at 31 December 2011 : :

	31 December **2011** **$'000**	30 June 2011 $'000	31 December 2010 $'000
ASSETS			
Current assets			
Cash and cash equivalents	191,334	144,858	203,904
Trade and other receivables	302,491	374,375	310,153
Inventories	376,992	348,738	320,583
Current tax receivables	16,703	15,858	986
Other	27,373	25,025	24,249
Total current assets	914,893	908,854	859,875
Non-current assets			
Receivables	15,403	14,106	15,449
Property, plant and equipment	187,886	184,852	189,701
Intangible assets	1,276,558	1,268,461	1,283,530
Deferred tax assets	37,015	35,963	26,304
Other	6,717	7,729	7,564
Total non-current assets	1,523,579	1,511,111	1,522,548
Total assets	2,438,472	2,419,965	2,382,423
LIABILITIES			
Current liabilities			
Trade and other payables	375,535	344,034	335,759
Borrowings	15,471	15,262	15,967
Current tax liabilities	2,199	1,839	16,621
Provisions	24,041	28,073	10,214
Total current liabilities	417,246	389,208	378,561
Non-current liabilities			
Borrowings	701,500	597,903	570,675
Deferred tax liabilities	46,780	46,909	46,686
Provisions and other payables	25,599	25,003	24,589
Deferred payment	86,147	164,103	188,178
Total non-current liabilities	860,026	833,918	830,128
Total liabilities	1,277,272	1,223,126	1,208,689
Net assets	1,161,200	1,196,839	1,173,734
EQUITY			
Contributed equity	682,909	678,949	675,731
Treasury shares	(27,935)	(30,291)	(30,291)
Option reserve	7,030	8,814	7,062
Other reserves	(146,769)	(127,297)	(125,122)
Retained profits	646,361	663,289	641,885
Capital and reserves attributable to members of Billabong International Limited	1,161,596	1,193,464	1,169,265
Non-controlling interests	(396)	3,375	4,469
Total equity	1,161,200	1,196,839	1,173,734

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

	Notes	Attributable to members of Billabong International Limited				Non-controlling interests $'000	Total $'000
		Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000		
Balance at 1 July 2010		671,761	(85,292)	630,290	1,216,759	820	1,217,579
Profit for the half-year		---	---	57,157	57,157	---	57,157
Other comprehensive income		---	(63,546)	---	(63,546)	---	(63,546)
Total comprehensive income for the half-year		---	(63,546)	57,157	(6,389)	---	(6,389)
Transactions with equity holders in their capacity as equity holders:							
Dividend reinvestment plan issues	4	3,970	---	---	3,970	---	3,970
Dividends paid	5	---	---	(45,562)	(45,562)	---	(45,562)
Treasury shares purchased by employee share plan trusts	4	---	(4,446)	---	(4,446)	---	(4,446)
Option reserve in respect of employee share plan		---	4,140	---	4,140	---	4,140
Redemption option for non-controlling derivative		---	793	---	793	---	793
Non-controlling interests on acquisition of subsidiary		---	---	---	---	3,649	3,649
		3,970	487	(45,562)	(41,105)	3,649	(37,456)
Balance at 31 December 2010		675,731	(148,351)	641,885	1,169,265	4,469	1,173,734
Balance at 1 July 2011		678,949	(148,774)	663,289	1,193,464	3,375	1,196,839
Profit for the half-year		---	---	16,097	16,097	(122)	15,975
Other comprehensive income		---	(19,161)	---	(19,161)	---	(19,161)
Total comprehensive income for the half-year		---	(19,161)	16,097	(3,064)	(122)	(3,186)
Transactions with equity holders in their capacity as equity holders:							
Transactions with non-controlling interests	4	3,960	(311)	---	3,649	(3,649)	---
Dividends paid	5	---	---	(33,025)	(33,025)	---	(33,025)
Treasury shares purchased by employee share plan trusts	4	---	(2,665)	---	(2,665)	---	(2,665)
Option reserve in respect of employee share plan		---	3,237	---	3,237	---	3,237
		3,960	261	(33,025)	(28,804)	(3,649)	(32,453)
Balance at 31 December 2011		682,909	(167,674)	646,361	1,161,596	(396)	1,161,200

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

Cash flow statement

For the half-year ended 31 December 2011 : :

	Half-year 2011 $'000	Half-year 2010 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	961,380	927,790
Payments to suppliers and employees (inclusive of GST)	(852,670)	(827,205)
	108,710	100,585
Interest received	896	990
Other revenue	1,995	2,246
Finance costs	(15,575)	(21,016)
Income taxes paid	(8,989)	(19,029)
Net cash inflow from operating activities	87,037	63,776
Cash flows from investing activities		
Payments for purchase of subsidiaries and businesses, net of cash acquired	(58,531)	(209,218)
Payments for property, plant and equipment	(26,787)	(23,840)
Payments for intangible assets	(5,158)	(3,899)
Proceeds from sale of property, plant and equipment	462	307
Net cash outflow from investing activities	(90,014)	(236,650)
Cash flows from financing activities		
Payments for treasury shares held by employee share plan trusts	(2,665)	(4,446)
Proceeds from borrowings	424,999	568,460
Repayment of borrowings	(341,809)	(325,724)
Dividends paid	(33,025)	(41,592)
Net cash inflow from financing activities	47,500	196,698
Net increase in cash and cash equivalents	44,523	23,824
Cash and cash equivalents at the beginning of the half-year	144,425	208,742
Effects of exchange rate changes on cash and cash equivalents	394	(28,662)
Cash and cash equivalents at the end of the half-year	189,342	203,904
(a) Reconciliation to cash at the end of the half-year		
Balance per consolidated balance sheet	191,334	203,904
Bank overdrafts	(1,992)	---
Balance per consolidated cash flow statement	189,342	203,904

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

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

This interim financial report for the half-year reporting period ended 31 December 2011 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made by Billabong International Limited (the Company) during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.* The financial report covers the consolidated entity consisting of Billabong International Limited and its subsidiaries (the Group or consolidated entity).

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Impact of standards issued but not yet applied by the entity
In December 2009, the AASB issued AASB 9 *Financial Instruments* which addresses the classification and measurement of financial assets and is unlikely 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.

In May 2011 IFRS 13 *Fair value measurement* was issued. IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The Group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

Note 2. Segment information

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

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

The geographic segments are organised as below:

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

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

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

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

Segment Earnings Before Interest, Taxes, Depreciation 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 income tax assets and derivative assets.

Note 2. Segment information (continued)

Segment information provided to the CEO
The segment information provided to the CEO for the reportable segments for the half-year ended 31 December is as follows:

Half–year 2011	Australasia $'000	Americas $'000	Europe $'000	Rest of the world $'000	Total $'000
Sales to external customers	295,908	400,794	150,474	---	847,176
Third party royalties	---	---	---	1,311	1,311
Total segment revenue	295,908	400,794	150,474	1,311	848,487
EBITDA*	26,960	30,139	15,643	1,311	74,053
Less: depreciation and amortisation					(22,058)
Less: impairment charge**					(14,986)
Less: net interest expense					(14,207)
Profit before income tax					22,802
Segment assets	1,949,977	1,176,530	249,581	---	3,376,088
Elimination					(977,758)
Unallocated assets:					
Deferred tax					37,015
Derivative assets					3,127
Total assets					2,438,472
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	16,440	11,966	6,921	---	35,327

* Included in EBITDA for the half-year ended 31 December 2011 are one-off acquisition related costs and restructuring costs of $5.1 million which are non-recurring in nature.

**** Impairment charge**
As at 31 December 2011, the carrying value of assets in the South African CGU were tested for impairment based on fair value less costs to sell (FVLCTS) calculations. This resulted in an impairment charge of $15.0 million against goodwill being recognised and the carrying amount of the South African goodwill reducing to $17.1 million. The impairment arose as a result of extremely difficult trading conditions in South Africa which decreased the estimated future cash flows from South Africa. The key assumptions in the South African CGU were disclosed in the 30 June 2011 Full Financial Report and these assumptions were impacted by the trading conditions since 30 June 2011.

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 and further distribution of Group brands into the South African market. The forecasts were adopted by the Board and were for a period of 9.5 years to reflect the capturing of the benefits of the new product initiatives.

The key assumptions used in performing the impairment test for South African CGU, were average sales growth and EBITDA margin over the forecast period of 6.5% and 16.4% respectively, terminal growth rate of 5.0% and a pre tax discount rate of 17.2%.

Note 2. Segment information (continued)

Half–year 2010	Australasia $'000	Americas $'000	Europe $'000	Rest of the world $'000	Total $'000
Sales to external customers	269,267	408,412	157,238	---	834,917
Third party royalties	---	---	---	1,136	1,136
Total segment revenue	269,267	408,412	157,238	1,136	836,053
EBITDA	40,314	29,088	24,066	1,136	94,604
Less: depreciation and amortisation					(20,322)
Less: net interest expense					(12,023)
Profit before income tax					62,259
Segment assets	1,971,866	1,108,706	237,829	---	3,318,401
Elimination					(963,421)
Unallocated assets:					
Deferred tax					26,304
Derivative assets					1,139
Total assets					2,382,423
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	113,514	182,129	4,180	---	299,823

Note 3. Income tax expense

The income tax expense for the half-year ended 31 December 2011 was $6.8 million (2010: $5.1 million), an effective rate of tax of 29.9% (2010: 8.2%). The higher effective tax rate is primarily driven by the current year impairment charge (which is non-deductible) and a number of one-off benefits being included in the prior year. Adjusting for these one-off amounts, the effective tax rate for the Group is 18.1% (2010: 24.0%). The adjusted lower effective tax rate for the half-year ended 31 December 2011 reflects in part the impact of net exempt income from branch operations, in particular GSM (Europe) Pty Ltd, consistent with the Group's changing segment mix.

The prior year carry forward tax losses in the UK have been recognised as the Group expects to generate taxable profit in this region in the foreseeable future against which these losses can be applied.

Note 4. Equity securities issued

	Half-year		Half-year	
	2011 Shares	2010 Shares	**2011 $'000**	2010 $'000
Issues of ordinary shares during the half-year				
Issued for no consideration:				
Dividend Reinvestment Plan issues	---	491,274	---	3,970
Non-controlling interest	1,064,516	---	3,960	---
	1,064,516	491,274	3,960	3,970
Movements in treasury shares during the half-year				
Acquisition of shares by the employee share plan trusts	(736,139)	(570,000)	(2,665)	(4,446)
Employee share scheme issue	477,880	381,200	5,021	4,922
Net movement	(258,259)	(188,800)	2,356	476

(a) Transactions with non-controlling interests

On 23 September 2011 the Group acquired the remaining 50% of the issued share capital of Surfection Pty Ltd for a purchase consideration of $4.0 million issued as ordinary shares of Billabong International Limited. The Group now controls 100% of the issued share capital of Surfection Pty Ltd. The Group recognised a decrease in non-controlling interests of $3.7 million and a decrease in equity attributable to owners of the parent of $0.3 million. The effect of changes in the ownership interest of Surfection Pty Ltd on the equity attributable to owners of the Group during the year is summarised as follows:

	Half-year **2011** **$'000**	Half-year 2010 $'000
Carrying amount of non-controlling interests acquired	3,649	---
Consideration paid through the issue of ordinary shares of Billabong International Limited to non-controlling interests	(3,960)	---
Excess of consideration paid recognised in the transactions with non-controlling interests reserve within equity	(311)	---

There were no transactions with non-controlling interests in 2010.

Note 5. Dividends

	Half-year **2011** **$'000**	Half-year 2010 $'000
Ordinary shares		
Dividends provided for or paid during the half-year	33,025	45,562
Dividends not recognised at the end of the half-year		
In addition to the above, since the end of the half-year the Directors have recommended the payment of an unfranked interim dividend of 3.0 cents per fully paid ordinary share (2010: 16.0 cents partially franked to 50% based on tax paid at 30%). The aggregate amount of the proposed interim dividend expected to be paid on 19 April 2012 (2010: 21 April 2011) out of retained profits at 31 December 2011, but not recognised as a liability at the end of the half-year, is	7,653	40,578

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

For the interim dividend to be paid on 19 April 2012, the Dividend Reinvestment Plan (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 less a discount of 2.5%. A shareholder can elect to participate in or terminate their involvement in the DRP in respect of the 2012 interim dividend at any time prior to the record date of 19 March 2012. The DRP will be underwritten to 100% of the 2012 interim dividend by Goldman Sachs. The terms of the DRP may be varied for future dividends beyond the interim dividend for the half-year ended 31 December 2011.

Note 6. Business combinations

Purchase consideration – cash outflow

	Consolidated	
	2011 $'000	2010 $'000
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	---	203,610
Less: Cash balances acquired	---	(258)
Add-back: Bank overdraft	---	3,461
	---	206,813
Payments relating to prior year acquisitions and other immaterial current year acquisitions	58,531	2,405
Outflow of cash – investing activities	58,531	209,218

Acquisition related costs
Acquisition related costs of $0.2 million (2010: $7.4 million) are included in 'other expenses' in the income statement.

2011

There were no business combinations that were of a material nature for the half-year ended 31 December 2011. The payments for purchase of subsidiaries and businesses, net of cash acquired in the consolidated cash flow statement is in relation to the majority of the deferred consideration payment for Nixon and other immaterial current year acquisitions.

On 3 August 2011 the majority of the deferred consideration payment in relation to Nixon was paid with the remaining amount outstanding subject to the finalisation of a review of the taxation treatment of the payment in the hands of the recipients. The remaining amount outstanding was paid on 27 January 2012 and therefore no further amounts are due in relation to this acquisition.

On 23 September 2011 the Group acquired the remaining 50% of the issued share capital of Surfection Pty Ltd. The Group now controls 100% of the issued share capital of Surfection Pty Ltd. Refer to note 4 for further information.

Prior period (2010) – Update on 30 June 2011 Full Financial Report note 35

West 49 Inc.

(a) Summary of acquisition

On 1 September 2010 Billabong International Limited acquired 100% of the shares of West 49 Inc., a leading Canadian specialty retailer of apparel, footwear, accessories and equipment related to the youth action sports lifestyle. The acquisition has increased the Group's market share in Canada.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	$'000
Purchase consideration:	
Cash paid	94,038
Total purchase consideration	94,038

Note 6. Business combinations (continued)

(a) Summary of acquisition (continued)

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $'000
Other receivables	1,224
Inventory	31,572
Plant and equipment	19,894
Prepayments	704
Deferred tax assets	1,262
Bank overdrafts	(3,461)
Trade and other payables	(54,891)
Provision for contingent tax liabilities	(14,299)
Identifiable intangible assets	286
Net identifiable assets acquired	(17,709)
Add: goodwill	111,747
Net assets acquired	94,038

Provision for contingent tax liabilities represents contingent liabilities recognised at fair value. The assessment of the amount of contingent tax liabilities involves the exercise of management judgements concerning potential future events.

Goodwill is attributable to the workforce and synergies expected to arise after the acquisition of the business.

The acquired business contributed revenues of $82.4 million and net profit after tax (including $3.2 million of acquisition related costs) of $1.4 million to the Group for the period from acquisition to 31 December 2010. These figures are calculated using the same methodology as those disclosed in the full financial report for the year ended 30 June 2011.

The acquired business contributed revenues of $152.8 million and net loss after tax (including $3.2 million of acquisition related costs) of $5.6 million to the Group for the period from acquisition to 30 June 2011.

The 'West 49 Inc.' acquisition was disclosed provisionally in the interim financial report for the half-year ended 31 December 2010 and the full financial report for the year ended 30 June 2011. As part of the finalisation of the acquisition, the fair value of identifiable assets and liabilities review has now been completed and adjustments were made to inventory, other payables and the provision for contingent tax liabilities, which were the only significant adjustments to the provisional values disclosed in the full financial report for the year ended 30 June 2011.

Bay Action, RVCA, Surfection, SDS/Jetty Surf and Rush Surf

(a) Summary of acquisitions

On 2 July 2010 GSM (Operations) Pty Ltd and Pineapple Trademarks Pty Ltd acquired the assets and certain liabilities of Bay Action Pty Ltd, Byron Concepts Pty Ltd, Big Kahoona Pty Ltd and the Timperley Partnership, a number of retail stores primarily featuring surf and related lifestyle apparel and accessories. The acquisition has increased the Group's market share in the Australian retail sector.

On 21 July 2010 Seal Trademarks Pty Ltd, GSM Add 2, Inc. and GSM Investments Ltd acquired the assets and certain liabilities of RVCA Corporation, RVCA Platform, LLC, VASF LLC and RVCA LA, LLC, a progressive art and design-driven brand. The acquisition has provided the opportunity to further expand the North American and international sales representation through the Group's distribution network.

Note 6. Business combinations (continued)

(a) Summary of acquisitions (continued)

On 23 September 2010 GSM (Operations) Pty Ltd acquired 50% of the issued share capital of Surfection Pty Limited, a retail chain primarily featuring surf and related lifestyle apparel and accessories, and control of the entity through the acquisition of greater than 50% of the voting rights. The acquisition has increased the Group's market share in the Australian retail sector. Surfection Pty Limited has been fully consolidated from the date on which control was transferred to the Group.

On 8 November 2010 Board Sports Retail Pty Ltd and Pineapple Trademarks Pty Ltd acquired the assets and certain liabilities of Jetty Surf Pty Limited, a retail chain operating under the banners SDS and Jetty Surf, primarily featuring surf and related lifestyle apparel and accessories. The acquisition has increased the Group's market share in the Australian retail sector.

On 26 November 2010 GSM (Operations) Pty Ltd and Pineapple Trademarks Pty Ltd acquired the assets and certain liabilities of Rush Lifestyle Australia Pty Ltd, Rush Lifestyle Clothing Australia Pty Ltd and W R James Pty Ltd, a retail chain primarily featuring surf and related lifestyle apparel and accessories. The acquisition has increased the Group's market share in the Australian retail sector.

Details of the aggregated purchase consideration, the net assets acquired and goodwill are as follows:

	$'000
Purchase consideration:	
Cash paid	109,572
Deferred consideration	37,783
Contingent consideration	40,388
Total purchase consideration	187,743

The assets and liabilities recognised as a result of the acquisitions are as follows:

	Fair value $'000
Cash and cash equivalents	258
Trade and other receivables	6,200
Inventory	30,776
Plant and equipment	7,638
Prepayments	230
Deferred tax assets	5,428
Employee entitlements	(1,248)
Trade and other payables	(29,064)
Deferred tax liabilities	(13)
Identifiable intangible assets	30,293
Net identifiable assets acquired	50,498
Less: non-controlling interests	(3,649)
Add: goodwill	140,894
Net assets acquired	187,743

Goodwill is attributable to the workforce and synergies expected to arise after the acquisition of the businesses. Goodwill is only deductible in the United States of America for tax purposes and US$75.8 million will be deductible for tax purposes.

Note 6. Business combinations (continued)

(a) Summary of acquisitions (continued)

The acquired businesses contributed revenues of $67.3 million and net profit after tax and non-controlling interests (including $5.2 million of acquisition related costs) of $1.0 million to the Group for the period from each acquisition to 31 December 2010. These figures are calculated using the same methodology as those disclosed in the full financial report for the year ended 30 June 2011.

The acquired businesses contributed revenues of $160.5 million and net profit after tax and non-controlling interests (including $5.2 million of acquisition related costs) of $5.2 million to the Group for the period from the date of each acquisition to 30 June 2011.

(i) Deferred and contingent consideration
In relation to the acquisition of the assets and certain liabilities of RVCA Corporation, RVCA Platform, LLC, VASF LLC and RVCA LA, LLC, additional consideration will be payable in cash on 1 July 2015. In relation to the acquisition of the assets and certain liabilities of Jetty Surf Pty Limited, additional consideration will be payable in cash from 1 November 2013. As at their respective acquisition dates a present value amount totalling $78.2 million was recognised as a non-current deferred consideration liability for these acquisitions of which $37.8 million is deferred and $40.4 million is contingent consideration. The aggregated range of the contingent consideration is a minimum of nil and there is no prescribed maximum.

(ii) Acquired receivables
The fair value of acquired trade and other receivables is $7.4 million. The gross contractual amount of the acquired trade receivables is $9.9 million and an amount of $2.5 million is considered to be uncollectible as at the acquisition date.

(iii) Non-controlling interests
The Group elected to recognise the non-controlling interests for Surfection Pty Limited at fair value.

(iv) Revenue and profit contribution
If the acquisitions had occurred on 1 July 2010, consolidated revenue and consolidated net profit after tax and non-controlling interests for the half-year ended 31 December 2010 would have been $920.4 million and $52.8 million respectively based on best estimates.

If the acquisitions had occurred on 1 July 2010, consolidated revenue and consolidated net profit after tax and non-controlling interests (including acquisition related costs) for the year ended 30 June 2011 would have been $1,770.5 million and $114.0 million respectively based on best estimates.

Note 7. Net tangible asset backing

	Half-year **2011**	Half-year 2010
Net tangible asset backing per ordinary share	$(0.46)	$(0.44)

Note 8. Contingencies

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

Note 9. Events occurring after the balance sheet date

On 17 February 2012 the Group announced that it had entered into definitive agreements with Trilantic Capital Partners for the sale of approximately 48.5% of Nixon. The Group will retain 48.5% of Nixon, while Nixon's management will purchase a 3% stake. The transaction values 100% of Nixon at approximately US$464.0 million, representing a multiple of approximately 9.2 times the last twelve months' EBITDA. The Group expects to realise net proceeds of approximately US$285.0 million (Net proceeds are approximate and net of all transaction costs and taxes. Net proceeds are pending receipt of final tax opinions and may reduce by up to US$45 million. The Group has sought advice in advance from the relevant tax authorities) as a result of this transaction, all of which will be used to repay existing debt and reduce the limit on the Group's financing facilities provided by its banking syndicate.

The operating results and assets and liabilities of the business will be deconsolidated from the time all conditions required for contractual completion have been satisfied. It is anticipated the transaction will be completed within 90 days, subject to certain anti-trust approval and customary closing conditions. This transaction is expected to result in a significant one-off gain in the Group's income statement in the year ending 30 June 2012, which cannot be calculated at this point in time as the transaction has not been completed.

On 17 February 2012 the Group announced that it is undertaking a review of its retail network with a view to closing loss-making stores and stores performing below expectations. While the review remains work in progress it is expected that the number of store closures will fall somewhere in the range of 100 to 150 stores. As part of this review, the Group is targeting a range of $20 million to $30 million reduction in rent expense and a resultant increase in EBITDA in the range of $5 million to $10 million for the year ending 30 June 2013. The closures will result in a one-off charge in the Group's income statement in the year ending 30 June 2012, which cannot be calculated at this point in time.

In addition to the above, the Group has also undertaken a review of its cost base and plans to reduce costs by approximately $30 million for the year ending 30 June 2013. The savings will come from all regions and all areas of the business, including head office overheads; supply chain rationalisation; retail corporate overheads; and streamlining the company's marketing expenditure.

The store closures mentioned above and the cost reduction program will result in full-time and casual job losses. Full-time job losses will be approximately 400 worldwide, including up to 80 in Australia. The company will seek to minimise forced job losses by redeploying staff from closed stores to other Billabong retail stores wherever possible and through natural staff attrition. The fluctuating nature of seasonal retail and the timing of store closures will impact the ultimate number of casual job losses.

Other than those items mentioned above, there has not arisen in the interval between the end of the half-year and the date of this report any item, transaction or event of a material and unusual nature 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.

Directors' declaration : :

In the Directors' opinion:

(a) the financial statements and notes set out on pages 8 to 22 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Billabong International Limited will be able to pay its debts as and when they become due and payable.

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

Ted Kunkel
Chairman

Gold Coast, 17 February 2012

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Billabong International Limited, which comprises the balance sheet as at 31 December 2011, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Billabong International Limited Group (the consolidated entity). The consolidated entity comprises both Billabong International Limited (the Company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report
The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Billabong International Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

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

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

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

Matters relating to the electronic presentation of the reviewed financial report
This review report relates to the financial report of the Company for the half-year ended 31 December 2011 included on Billabong International Limited's web site. The Company's Directors are responsible for the integrity of the Billabong International Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. 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 reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

PricewaterhouseCoopers

Steven Bosiljevac
Partner

Brisbane
17 February 2012

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