Billabong International Limited

ABN 17 084 923 946

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:: INTERIM FINANCIAL REPORT 31 DECEMBER 2009

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 2009 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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APPENDIX 4D
Half-yearly Report

Billabong International Limited
ABN 17 084 923 946

Extracts from this report for announcement to the market.

	Half-year		Change	
	2009 $'000	2008 $'000	$'000	%
Total revenue from continuing operations	723,636	810,962	(87,326)	(10.8%)
Profit from continuing operations after tax attributable to members	69,713	82,413	(12,700)	(15.4%)
Net profit for the period attributable to members	69,713	82,413	(12,700)	(15.4%)
Adjusted net profit for the period attributable to members	69,713	82,413	(12,700)	(15.4%)

Dividends	Amount per Security	Franked amount per security
Interim dividend	18.0 cents	9.0 cents
Previous corresponding period interim dividend	27.0 cents	12.15 cents

Record date for determining entitlements to the dividend is 22 March 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 interim dividend to be paid on 22 April 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 interim dividend at any time prior to the record date of 22 March 2010. The DRP in relation to the 2010 interim dividend will not be underwritten. The terms of the DRP may be varied for future dividends beyond the interim dividend for the half-year ended 31 December 2009.

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 2009.

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
M.A. Jackson
F.A. McDonald
G.S. Merchant
P. Naude
C. Paull

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 ***	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Australasia	239,475	245,661	59,686	69,602
Americas	317,504	385,141	33,692	40,786
Europe	164,019	177,800	29,122	35,716
Third party royalties	1,018	1,235	1,018	1,235
	722,016	809,837	123,518	147,339
Less: Net interest expense			(7,578)	(17,504)
Depreciation and amortisation			(17,513)	(17,596)
Impairment charge			---	(2,342)
Profit from continuing operations before income tax expense			98,427	109,897
Income tax expense			(28,714)	(27,484)
Profit attributable to the members of Billabong International Limited			69,713	82,413
Add back: Post tax impairment charge			---	2,039
Profit attributable to the members of Billabong International Limited before impairment charge			69,713	84,452

* 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 half-year ended 31 December 2009 was $69.7 million, a decrease of 15.4% in reported terms (a decrease of 7.6% in constant currency terms) compared to the 2008-09 half-year ended 31 December 2008 (the prior corresponding period). Excluding the after tax impact of an impairment charge expense in the prior corresponding period, the NPAT for the half-year ended 31 December 2009 was a decrease of 17.5% in reported terms (a decrease of 9.5% in constant currency terms) compared to the prior corresponding period.

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 corresponding period, weak trading conditions at a consumer level, especially in North America, and lower gross margins in Australia and Europe reflecting weaker foreign exchange hedge rates achieved for product purchases compared to the prior corresponding period, offset in part by overhead reductions across the business.

Review of operations (continued)

Sales revenue of $721.0 million, excluding third party royalties, represented a decrease of 10.8% in reported terms (a decrease of 2.8% in constant currency terms) over the prior corresponding period. At a segment level, in constant currency terms, sales revenue increased 2.6% in Europe, while sales revenue in Australasia decreased 1.4% and sales revenue in the Americas was 6.2% lower compared to the prior corresponding period.

Consolidated gross margins remained strong and strengthened to 55.5% compared to the prior corresponding period's 53.8%, reflecting improved gross margins in North America in a less promotional environment, offset by lower gross margins in Australia and Europe driven by weaker foreign exchange hedge rates achieved for product purchases compared to the prior corresponding period.

EBITDA of $123.5 million represented a decrease of 16.2% in reported terms (9.5% in constant currency terms) compared to the prior corresponding period, principally reflecting the unfavourable impact of the appreciation of the AUD against the USD and the Euro relative to the prior corresponding period and the continuing challenging trading environment as indicated above.

The consolidated EBITDA margin of 17.1% decreased by 1.1% compared to that of the prior corresponding period of 18.2%, reflecting the difficult trading environment and changing regional mix, combined with a significant foreign exchange gain of $4.4 million in the prior corresponding period and a foreign exchange loss of $1.7 million in the current half-year, a difference of $6.1 million between the reporting periods.

Segment Analysis
In addition to the specific factors discussed by segment below, EBITDA margins have been unusually affected by an increase in 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 to the prior corresponding period is almost entirely attributable to foreign exchange movements. Weaker EBITDA margins in Australasia and Europe in part reflect an increased allocation of global overhead costs compared to the prior corresponding period, given these segments represent a larger proportion of the Group's sales relative to the prior corresponding period and the fact that global overhead costs in the prior corresponding period benefited from the inclusion of a significant foreign exchange gain.

Australasia
Compared with the prior corresponding period in reported terms, sales revenue decreased 2.5% to $239.5 million (down from $245.7 million) and EBITDA decreased 14.2% to $59.7 million (down from $69.6 million). EBITDA margins were lower at 24.9% compared to 28.3% in the prior corresponding period, primarily reflecting the abovementioned impact of the allocation of global overhead costs, the segment's changing regional mix and weaker foreign exchange hedge rates achieved for product purchases compared to the prior corresponding period.

In constant currency terms, sales revenue decreased 1.4% and EBITDA decreased 14.0% compared to the prior corresponding period.

Sales revenue growth in Australia was solid while trading results in South Africa, Japan and New Zealand 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 corresponding period in reported terms, sales revenue decreased 17.6% to $317.5 million (down from $385.1 million) and EBITDA decreased 17.4% to $33.7 million (down from $40.8 million) driven principally by the weaker USD against the AUD and weak trading conditions. EBITDA margins remained steady at 10.6%, primarily reflecting the abovementioned impact of the allocation of global overhead costs, continued weak trading conditions, albeit with improved gross margins, combined with the impact of strategies adopted by management to reduce overheads.

In constant currency terms, sales revenue decreased 6.2% and EBITDA decreased 4.0% compared to the prior corresponding period.

Strong sales revenue and EBITDA growth was achieved in South America.

Review of operations (continued)

Europe
Compared with the prior corresponding period in reported terms, sales revenue decreased 7.8% to $164.0 million (down from $177.8 million) and EBITDA decreased by 18.5% to $29.1 million (down from $35.7 million) driven principally by the weaker Euro against the AUD. EBITDA margins of 17.8% were down on the prior corresponding period of 20.1%, primarily reflecting the abovementioned impact of the allocation of global overhead costs and weaker foreign exchange hedge rates achieved for product purchases compared to the prior corresponding period.

In constant currency terms, sales revenue increased 2.6% and EBITDA decreased 5.1% compared to the prior corresponding period.

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

Depreciation and Amortisation
Depreciation and amortisation expense was in line with the prior corresponding period in reported terms (an increase of 8.3% in constant currency terms due to investment in owned retail globally).

Impairment Charge
There is no impairment charge expense in the half-year ended 31 December 2009 however in the prior corresponding period, 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 corresponding period, this resulted in a pre-tax impairment charge in respect of retail stores which amounted to $2.3 million.

Net Interest Expense
The decrease in net interest expense of 56.7% in reported terms (52.6% in constant currency terms) compared to the prior corresponding period 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 half-year ended 31 December 2009 was $28.7 million ($27.5 million in the prior corresponding period), an effective rate of tax of 29.2% (25.0% in the prior corresponding period). The effective tax rate reflects in part the impact of net exempt income from branch operations, in particular GSM (Europe) Pty Ltd, together with several one-off prior year tax adjustments in the half-years ended 31 December 2008 and 31 December 2009. Adjusting for these one-off prior year tax adjustments, the effective tax rate for the Group would have been approximately 28% in the half-year ended 31 December 2009 (26% in the prior corresponding period).

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 $422.8 million represents 29.1% as a percentage of the prior twelve months' sales stated at half-year end exchange rates, being a 0.1% decrease over the prior corresponding period (29.2%), or a 1.9% increase in absolute dollars compared to revenue growth over the prior twelve month period of 2.6% in constant currency terms.

Cash flow from operations of $95.6 million represents a strong increase of 108.3% over the prior corresponding period, driven principally by higher net cash receipts and lower finance cost payments. Net cash receipts of $120.4 million are 54.1% higher than the prior corresponding period ($78.1 million).

Cash outflow from investing activities of $58.4 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 second instalment payment for the DaKine acquisition and investment in owned retail globally.

Review of operations (continued)

Net debt decreased 69.4% to $200.1 million over the prior corresponding period 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. The Group has a conservative gearing ratio (net debt to net debt plus equity) of 14.4% (42.4% in the prior corresponding period) and strong interest cover of 8.9 times (8.6 times in the prior corresponding period).

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.

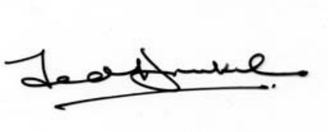
Auditor's independence declaration

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 98/0100, 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, 19 February 2010

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Auditor's independence declaration

As lead auditor for the review of Billabong International Limited for the half-year ended 31 December 2009, 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.

Robert Hubbard
Partner

PricewaterhouseCoopers

Brisbane, 19 February 2010

	Half-year **2009** **$'000**	Half-year 2008 $'000
Revenue from continuing operations	723,636	810,962
Cost of goods sold	(320,919)	(373,481)
Other income	453	5,083
Selling, general and administrative expenses	(239,005)	(259,564)
Other expenses	(53,554)	(52,509)
Finance costs	(12,184)	(20,594)
Profit before income tax	98,427	109,897
Income tax expense	(28,714)	(27,484)
Profit for the half-year attributable to members of Billabong International Limited	69,713	82,413
Earnings per share for profit attributable to the ordinary equity holders of the Company	Cents	Cents
Basic earnings per share (refer note 4)	27.9	38.1
Diluted earnings per share (refer note 4)	27.6	37.8

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

	Half-year 2009 $'000	Half-year 2008 $'000
Profit for the half-year	69,713	82,413
Other comprehensive income		
Changes in the fair value of cash flow hedges, net of tax	7,151	(3,338)
Exchange differences on translation of foreign operations	(11,672)	34,664
Net investment hedge, net of tax	(14,660)	15,987
Other comprehensive income for the half-year, net of tax	(19,181)	47,313
Total comprehensive income for the half-year attributable to members of Billabong International Limited	50,532	129,726

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

Consolidated balance sheet
As at 31 December 2009 : :

	31 December **2009** **$'000**	30 June 2009 $'000	31 December 2008 $'000
ASSETS			
Current assets			
Cash and cash equivalents	212,587	332,937	168,788
Trade and other receivables	333,875	405,155	393,731
Inventories	246,890	253,670	324,073
Current tax receivables	5,450	10,456	---
Other	22,145	18,563	30,914
Total current assets	820,947	1,020,781	917,506
Non-current assets			
Receivables	10,926	11,566	10,320
Property, plant and equipment	154,798	161,816	182,304
Intangible assets	977,664	999,491	1,098,139
Deferred tax assets	20,415	21,735	18,563
Other	4,412	5,123	7,610
Total non-current assets	1,168,215	1,199,731	1,316,936
Total assets	1,989,162	2,220,512	2,234,442
LIABILITIES			
Current liabilities			
Trade and other payables	178,907	277,947	273,245
Borrowings	15,295	10,031	11,556
Current tax liabilities	12,942	7,690	7,930
Provisions	8,215	13,483	9,049
Total current liabilities	215,359	309,151	301,780
Non-current liabilities			
Borrowings	397,376	547,872	810,203
Deferred tax liabilities	60,391	56,497	56,431
Provisions and other payables	18,950	21,330	16,154
Deferred payment	106,661	108,726	161,113
Total non-current liabilities	583,378	734,425	1,043,901
Total liabilities	798,737	1,043,576	1,345,681
Net assets	1,190,425	1,176,936	888,761
EQUITY			
Contributed equity	668,881	659,012	345,889
Treasury shares	(30,767)	(27,295)	(27,295)
Option reserve	4,442	2,519	2,874
Other reserves	(51,661)	(32,480)	5,872
Retained profits	599,530	575,180	561,421
Total equity	1,190,425	1,176,936	888,761

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

Consolidated statement of changes in equity
For the half-year ended 31 December 2009 : :

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2008		316,317	(59,342)	538,128	795,103
Total comprehensive income for the half-year		---	47,313	82,413	129,726
Transactions with equity holders in their capacity as equity holders:					
Employee share options exercised	4	39	---	---	39
Dividend reinvestment plan issues	4	29,533	---	---	29,533
Dividends paid	5	---	---	(59,120)	(59,120)
Treasury shares purchased by employee share plan trusts	4	---	(7,194)	---	(7,194)
Option reserve in respect of employee share plan		---	674	---	674
		29,572	(6,520)	(59,120)	(36,068)
Balance at 31 December 2008		345,889	(18,549)	561,421	888,761
Balance at 1 July 2009		659,012	(57,256)	575,180	1,176,936
Total comprehensive income for the half-year		---	(19,181)	69,713	50,532
Transactions with equity holders in their capacity as equity holders:					
Employee share options exercised	4	---	---	---	---
Dividend reinvestment plan issues	4	9,869	---	---	9,869
Dividends paid	5	---	---	(45,363)	(45,363)
Treasury shares purchased by employee share plan trusts	4	---	(3,472)	---	(3,472)
Option reserve in respect of employee share plan		---	1,923	---	1,923
		9,869	(1,549)	(45,363)	(37,043)
Balance at 31 December 2009		668,881	(77,986)	599,530	1,190,425

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

	Half-year **2009** **$'000**	Half-year 2008 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	820,297	875,459
Payments to suppliers and employees (inclusive of GST)	(699,935)	(797,351)
	120,362	78,108
Interest received	1,522	1,584
Other revenue	1,524	1,291
Finance costs	(12,740)	(19,830)
Income taxes paid	(15,065)	(15,254)
Net cash inflow from operating activities	95,603	45,899
Cash flows from investing activities		
Payments for purchase of subsidiaries and businesses, net of cash acquired	(37,351)	(139,253)
Payments for property, plant and equipment	(19,020)	(39,252)
Payments for intangible assets	(2,144)	(3,615)
Proceeds from sale of property, plant and equipment	141	---
Net cash outflow from investing activities	(58,374)	(182,120)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities	---	21,429
Payments for treasury shares held by employee share plan trusts	(3,472)	(7,194)
Proceeds from borrowings	384,257	481,652
Repayment of borrowings	(487,435)	(286,291)
Dividends paid	(35,494)	(50,950)
Net cash (outflow)/inflow from financing activities	(142,144)	158,646
Net (decrease)/increase in cash and cash equivalents	(104,915)	22,425
Cash and cash equivalents at the beginning of the half-year	332,937	125,852
Effects of exchange rate changes on cash and cash equivalents	(15,435)	19,480
Cash and cash equivalents at the end of the half-year	212,587	167,757
(a) Reconciliation to cash at the end of the half-year		
Balance per consolidated balance sheet	212,587	168,788
Bank overdrafts	---	(1,031)
Balance per consolidated cash flow statement	212,587	167,757

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

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

This general purpose financial report for the interim half-year reporting period ended 31 December 2009 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 2009 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, except as set out below.

Changes in accounting policy
The Company had to change some of its accounting policies as the result of new or revised accounting standards which became operative for the annual reporting period commencing on 1 July 2009.

The affected policies and standards are:

- Principles of consolidation – revised AASB 127 *Consolidated and Separate Financial Statements* and changes made by AASB 2008-7 *Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Business combinations – revised AASB 3 *Business Combinations*
- Segments – new AASB 8 *Operating Segments*

Principles of consolidation
AASB 127 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. This is different to the Group's previous accounting policy where transactions with minority interests were treated as transactions with parties external to the Group.

The standard also specifies the accounting when control is lost. Any remaining interest in the entity must now be remeasured to fair value and a gain or loss is recognised in profit or loss. Under the Group's current accounting policy, the retained interest in the carrying amount of the former subsidiary's assets and liabilities becomes the cost of investment. If the investment is accounted for as an available-for-sale financial asset, it is subsequently revalued to fair value; however, any revaluation gain or loss is recognised in the available-for-sale investments revaluation reserve.

The Group will in future allocate losses to the non-controlling interest in its subsidiaries even if the accumulated losses should exceed the non-controlling interest in the subsidiary's equity. Under the previous policy, excess losses were allocated to the parent entity.

Lastly, dividends received from investments in subsidiaries, jointly controlled entities or associates after 1 July 2009 are recognised as revenue even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a result of the dividend payment. Under the Company's previous policy, these dividends would have been deducted from the cost of the investment.

The changes were implemented prospectively from 1 July 2009. There has been no impact on the current period as there are no transactions with non-controlling interests. There have also been no transactions whereby an interest in an entity is retained after the loss of control of that entity, no transactions with non-controlling interests and no dividends paid out of pre-acquisition profits.

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

Business combinations
AASB 3 (revised) continues to apply the acquisition method to business combinations, but with some significant changes.

All payments to purchase a business are now recorded at fair value at the acquisition date, with contingent payments classified as a payable and subsequently remeasured through the income statement. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

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 assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised as its share of the acquiree's net assets.

If the Group recognises acquired deferred tax assets after the initial acquisition accounting, 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.

The changes were implemented prospectively from 1 July 2009 and has not materially affected the interim financial statements as there have been no material acquisitions.

Segment reporting
The Group has applied AASB 8 *Operating Segments* from 1 July 2009. AASB 8 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.

Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Chief Executive Officer ("CEO") as this person regularly reviews the performance of the operating segments and allocates resources accordingly.

There has been no impact on the measurement of the Company's assets and liabilities. Comparatives for 2008 have been restated.

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.

Note 2. Segment information (continued)

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, England, France, Germany, Italy, the Netherlands and Spain.

All other segments
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.

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 2009	**Australasia $'000**	**Americas $'000**	**Europe $'000**	**Rest of the world $'000**	**Total $'000**
Sales to external customers	239,475	317,504	164,019	---	720,998
Third party royalties	---	---	---	1,018	1,018
Total segment revenue	239,475	317,504	164,019	1,018	722,016
EBITDA	59,686	33,692	29,122	1,018	123,518
Less: depreciation and amortisation					(17,513)
Less: net interest expense					(7,578)
Profit before income tax					98,427
Segment assets	1,699,247	855,426	253,888	---	2,808,561
Elimination					(842,084)
Unallocated assets:					
Deferred tax					20,415
Derivative assets					2,270
Total assets					1,989,162
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	12,418	14,425	8,877	---	35,720

Note 2. Segment information (continued)

Half–year 2008	**Australasia $'000**	**Americas $'000**	**Europe $'000**	**Rest of the world $'000**	**Total $'000**
Sales to external customers	245,661	385,141	177,800	---	808,602
Third party royalties	---	---	---	1,235	1,235
Total segment revenue	245,661	385,141	177,800	1,235	809,837
EBITDA	69,602	40,786	35,716	1,235	147,339
Less: depreciation and amortisation					(17,596)
Less: impairment charge					(2,342)
Less: net interest expense					(17,504)
Profit before income tax					109,897
Segment assets	1,038,787	1,101,685	304,018	---	2,444,490
Elimination					(234,485)
Unallocated assets:					
Deferred tax					18,563
Derivative assets					5,874
Total assets					2,234,442
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	93,809	140,384	18,252	---	252,445
Impairment of retail fixed assets*	---	762	1,580	---	2,342

* 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. For the half-year, this resulted in a pre-tax impairment charge in respect of retail stores in the United Kingdom and the United States which amounted to $2.3 million. This impairment charge has been included within the other expenses line item on the income statement.

Note 3. Income tax expense

The income tax expense for the half-year ended 31 December 2009 was $28.7 million (2008: $27.5 million), an effective rate of tax of 29.2% (2008: 25.0%). The effective tax rate reflects in part the impact of net exempt income from branch operations, in particular GSM (Europe) Pty Ltd, together with several one-off prior year tax adjustments in the half-years ended 31 December 2008 and 31 December 2009. Adjusting for these one-off prior year tax adjustments, the effective tax rate for the Group would have been approximately 28% in the half-year ended 31 December 2009 (2008: 26%).

Note 4. Equity securities issued

	Half-year		Half-year	
	2009 Shares	2008 Shares	**2009 $'000**	2008 $'000
Issues of ordinary shares during the half-year				
Exercise of options issued under the Element acquisition agreement	---	4,846	---	39
Issued for no consideration:				
Dividend Reinvestment Plan issues	845,577	679,669	9,869	8,143
Issued for consideration:				
Dividend Reinvestment Plan issues (underwritten)	---	1,761,958	---	21,390
	845,577	2,446,473	9,869	29,572
Movements in treasury shares during the half-year				
Acquisition of shares by the employee share plan trusts	(330,450)	(556,865)	(3,472)	(7,194)
Employee share scheme issue	---	363,852	---	4,795
Net movement	(330,450)	(193,013)	(3,472)	(2,399)

The 2008 basic and diluted earnings per share have been restated to reflect the impact of the rights issue in the 2009 financial year in order to achieve a comparable calculation to the 2009 basic and diluted earnings per share. This change takes into account the bonus element included in the rights offer for ordinary shares as the offer was made at a discount to market price.

Note 5. Dividends

	Half-year	Half-year
	2009 $'000	2008 $'000
Ordinary shares		
Dividends provided for or paid during the half-year	45,363	59,120
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 interim dividend of 18.0 cents per fully paid ordinary share (2008 – 27.0 cents), partially franked to 50% based on tax paid at 30%. The aggregate amount of the proposed interim dividend expected to be paid on 22 April 2010 (2008 – 23 April 2009) out of retained profits at 31 December 2009, but not recognised as a liability at the end of the half-year, is	45,515	56,667

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 interim dividend to be paid on 22 April 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 interim dividend at any time prior to the record date of 22 March 2010. The DRP in relation to the 2010 interim dividend will not be underwritten. The terms of the DRP may be varied for future dividends beyond the interim dividend for the half-year ended 31 December 2009.

Note 6. Business combinations

Current period
There were no business combinations that were of a material nature for the half-year ended 31 December 2009. The payments for purchase of subsidiaries and businesses, net of cash acquired in the consolidated cash flow statement is in relation to the second instalment payment for the DaKine acquisition and the acquisition of the United States based online boardsports retailer Swell.com as announced to the market on 24 November 2009.

Prior period (2008)

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 $37.7 million and net profit after tax of $3.9 million to the Group for the period from acquisition to 31 December 2008.

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 half-year ended 31 December 2009, 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 6. 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.

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 prior year 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 $22.0 million and net profit after tax of $2.0 million to the Group for the period from acquisition to 31 December 2008.

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.

Note 6. Business combinations (continued)

(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

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.

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 half-year ended 31 December 2008 would have been $849.6 million and $84.8 million respectively based on best estimates.

Note 7. Net tangible asset backing

	Half-year **2009**	Half-year 2008
Net tangible asset backing per ordinary share	$0.84	($1.00)

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

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 Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

In the Directors' opinion:

(a) the financial statements and notes set out on pages 8 to 20 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 2009 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
Director

Gold Coast, 19 February 2010

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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 2009, and the income statement, the statement of comprehensive income, statement of changes in equity and cash flow statement for the half-year ended on that date, other 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 and fair presentation of the half-year 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 control relevant to the preparation and fair presentation of the half-year 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.

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 2009 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. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. 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.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

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

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 2009 and of its performance for the half-year ended on that date; and

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

PricewaterhouseCoopers

Robert Hubbard
Partner

Brisbane
19 February 2010

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