

Appendix 4E

Preliminary final report

Name of entity

BILLABONG INTERNATIONAL LIMITED

ABN

17 084 923 946

Financial year ended

30 JUNE 2017

Comparative Financial year ended

30 JUNE 2016

Results for announcement to the market

| Results | | | | \$A'000 |
|---|------|------|----|----------|
| Revenues from continuing operations | Down | 8.9% | to | 979,452 |
| Profit from ordinary activities after tax attributable to members | Down | n/a | to | (77,129) |
| Net profit for the period attributable to members | Down | n/a | to | (77,129) |

| Dividends | Amount per security | Franked amount per security | Tax rate for franking |
|---|---------------------|-----------------------------|-----------------------|
| Current period - 2017 | | | |
| Final dividend | --- | --- | n/a |
| Interim dividend | --- | --- | n/a |
| Previous corresponding period - 2016 | | | |
| Final dividend | --- | --- | n/a |
| Interim dividend | --- | --- | n/a |

The Board has not declared a final ordinary dividend for the year ended 30 June 2017. The Dividend Reinvestment Plan (DRP) remains suspended.

| NTA backing | 2017 | 2016 |
|--|--------|--------|
| Net tangible asset backing per ordinary security | \$0.59 | \$0.44 |

Compliance statement

This report is based on the consolidated financial report which has been audited.

Refer to the attached full financial report for all other disclosures in respect of the Appendix 4E.



Signed:

..... Date: 30 August 2017
Neil Fiske
Chief Executive Officer

 **BILLABONG**

 **ELEMENT**

RVCA

 **VONZIPPER**

 **XCEL**

HONOLUA
SURF CO.


 **KUSTOM**


PALMERS

**Billabong
International
Limited**
ABN 17 084 923 946

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**FINANCIAL REPORT
30 JUNE 2017**

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Billabong International Limited (the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2017.

Directors

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

Ian Pollard
Neil Fiske
Gordon Merchant
Howard Mowlem

Kim Anderson was appointed as Director on 9 December 2016 and continues in office at the date of this report.

Elliott Weinstein was appointed as Director on 3 July 2017 and continues in office at the date of this report.

Sally Pitkin was a Director from the beginning of the financial period until her resignation on 15 August 2016.

Jason Mozingo was a Director from the beginning of the financial period until his resignation on 30 June 2017.

Amar Doshi was an Alternate to Jason Mozingo from the beginning of the financial period until his resignation on 4 August 2016.

Principal activities

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

Dividends - Billabong International Limited

No dividends were paid to members during the financial year. The Board has not declared a final ordinary dividend for the year ended 30 June 2017. The Dividend Reinvestment Plan (DRP) remains suspended.

Operating and Financial Review

Group overview

The Group's business is the wholesaling and retailing of surf, skate, snow and sports apparel, accessories and hardware currently comprising multiple brands and retail banners over three key reporting segments being Asia Pacific, Americas and Europe.

The Group's brands at year end included Billabong, Element, RVCA, Kustom, Palmers, Honolua, Xcel and Von Zipper.

The Group operates 372 retail stores as at 30 June 2017 in regions/countries around the world including but not limited to: North America (49 stores), Europe (104 stores), Australia (105 stores), New Zealand (26 stores), Japan (46 stores) and South Africa (27 stores). Stores trade under a variety of banners, including but not limited to: Billabong, Element, RVCA, Surf Dive 'n' Ski (SDS), Amazon, Honolua, Two Seasons and Quiet Flight. The Group also operates online retail ecommerce for each of its key brands.

Significant changes in the state of affairs

The statement below should be read in conjunction with note 33 (events occurring after the balance sheet date) of the annual report for the year ended 30 June 2016 and any public announcements made by the Company during the financial year.

Effective 1 April 2017 the Group sold Tigerlily for \$60 million to Crescent Capital Partners which resulted in a \$47.8 million gain on sale, net of divestment costs. The results of Tigerlily to 1 April 2017 have been reported in these financial statements as discontinued operations.

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

Group financial performance

The Group results for the period and the prior corresponding period (pcp) include certain significant items. Refer to note 5 of the financial statements for detailed disclosure in relation to these items.

In order to provide users with additional information regarding the continuing operations excluding the aforementioned significant items and to help understand the impact of these events on the results of the Group, the segment results are presented in two separate tables.

Table A presents the segment results on a basis including all significant items. See Table A: Segment results as reported - including significant items and discontinued operations.

Table B presents the results excluding significant items and discontinued operations. See Table B: Adjusted segment results.

Included in the results for the financial year ended 30 June 2017 is non-cash impairment charges of \$94.2 million relating to brands and goodwill. The vast majority of this accounting charge was recognised in response to indicators arising from the difference between the Company's share price and the carrying value of the Group's net assets, rather than specific valuation issues related to any particular brand. Refer to note 16 of the financial statements for further information.

Operating and Financial Review (continued)

On 29 June 2016, the Group announced the sale of Sector 9. The results of Sector 9 did not meet the conditions under AASB 5 to be disclosed as a discontinued operation and are therefore included in the pcp in both tables below. The disposal of Sector 9 primarily impacts the year on year comparison of revenue and expenses, particularly in the Americas, and has been highlighted in the accompanying commentary included in this report.

Table A: Segment results as reported - including significant items and discontinued operations

| | Segment revenues | | Segment EBITDAI* | |
|---|------------------|------------------|------------------|-----------------|
| | 2017 \$'000 | 2016 \$'000 | 2017 \$'000 | 2016 \$'000 |
| Asia Pacific | 392,943 | 422,958 | 30,466 | 22,375 |
| Americas | 432,905 | 481,279 | 47,983 | 14,320 |
| Europe | 174,828 | 192,666 | 17,764 | 9,543 |
| Third party royalties | 3,048 | 3,526 | 3,048 | 3,526 |
| Segment revenues / EBITDAI* | <u>1,003,724</u> | <u>1,100,429</u> | <u>99,261</u> | <u>49,764</u> |
| Less: Depreciation and amortisation | | | (28,954) | (32,230) |
| Net interest expense | | | (31,294) | (33,526) |
| (Impairment expense)/net reversal of impairment expense | | | (106,450) | 97 |
| Loss before income tax expense | | | <u>(67,437)</u> | <u>(15,895)</u> |
| Income tax expense | | | (9,692) | (7,844) |
| Loss attributable to members of Billabong International Limited | | | <u>(77,129)</u> | <u>(23,739)</u> |

* Segment earnings before interest, taxes, depreciation, amortisation and impairment (EBITDAI) excludes inter-company royalties and sourcing fees and includes an allocation of global overhead costs (which include corporate overhead, international advertising and promotion costs, central sourcing costs and foreign exchange movements). The Tigerlily gain on sale (net of divestment costs) forms part of the current year global overhead costs which have been allocated to each segment based on a percentage of sales.

Table B: Adjusted segment results

| Adjusted EBITDAI by Segment | Excluding significant items and discontinued operations* | |
|--|--|----------------|
| | 2017 \$'000 | 2016 \$'000 |
| Asia Pacific | 8,452 | 19,379 |
| Americas | 29,159 | 16,959 |
| Europe | 10,395 | 11,047 |
| Third party royalties | 3,048 | 3,526 |
| Adjusted EBITDAI | <u>51,054</u> | <u>50,911</u> |
| Less: Depreciation and amortisation | (28,202) | (31,218) |
| Net interest expense | (31,294) | |
| Adjusted net loss before income tax expense | <u>(8,442)</u> | |
| Adjusted income tax expense | (9,952) | |
| Adjusted net loss attributable to members of Billabong International Limited | <u>(18,394)</u> | |

* Excludes Tigerlily. The results of Sector 9 did not meet the conditions under AASB 5 to be disclosed as a discontinued operation during the year ended 30 June 2016 and are therefore included in the above figures.

Constant currency

Due to a significant portion of the Group's operations being outside Australia, the Group is exposed to currency exchange rate translation risk i.e. the risk that the Group's offshore earnings and assets fluctuate when reported in Australian Dollars (AUD). The Group's segment information for the prior period has also been provided in the below commentary on a constant currency basis (i.e. using the current period monthly average exchange rates to convert the prior period foreign earnings) to remove the impact of foreign exchange movements from the Group's performance against the pcp. The constant currency comparatives are not compliant with Australian Accounting Standards.

Adjusted EBITDAI

Adjusted EBITDAI excludes pre-tax significant items of income and expense. Refer to note 5 of the financial statements for detailed disclosure in relation to these items.

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

Operating and Financial Review (continued)

Consolidated result including significant items

Net loss after tax for the year ended 30 June 2017 was \$77.1 million compared to a net loss after tax of \$23.7 million in the pcp. The current year includes an impairment charge of \$106.5 million (prior year net impairment reversal of \$0.1 million). EBITDAI was impacted by the abovementioned significant items in both years and the sale of Tigerlily in the current year.

Group performance excluding significant items and excluding discontinued operations

Group sales to external customers of \$974.7 million, excluding third party royalties, represents an as reported 8.8% decrease on the pcp. In constant currency terms Group revenues decreased 6.7% on the pcp. In constant currency terms, sales revenue in Asia Pacific decreased 8.0%, the Americas decreased 7.5% and Europe decreased 1.6% compared with the pcp. Adjusting for the disposal of Sector 9, comparable Group revenues in constant currency terms decreased 4.7% for the period compared with the pcp.

Consolidated gross margins were 51.1% (50.2% in the pcp).

Adjusted EBITDAI excluding significant items of \$51.1 million for the period compares to \$50.9 million for the pcp. This is an increase of 0.3% (an increase of 2.8% in constant currency terms).

Regional results excluding significant items and excluding discontinued operations were as follows:

- In Asia Pacific
 - EBITDAI of \$8.5 million for the year compares to \$19.4 million for the pcp.
 - Revenue was 7.1% lower than the pcp in as reported terms (down 8.0% in constant currency terms) and adjusted EBITDAI was down \$10.9 million compared to the pcp.
 - For the year as a whole, bricks and mortar comparable store sales trading across the region was 4.1% lower compared to the pcp.
 - In Australia, for the year as a whole comparable bricks and mortar store sales were down 5.0% on the pcp, with the months of October and May particularly difficult with both being down double digits.
 - Broader retail pressures extended to wholesale accounts, down 15.1% on a constant currency basis.
 - Gross margin pressure (53.6% vs 54.0%) reflected the lower AUD, relative to the USD, during the first half of the period which increased input prices (approximately \$4 million), together with a highly promotional retail environment. Sourcing and other margin improvements in the second half limited the overall decline in full year gross margins to 40 basis points. Second half margins were up 100 basis points on the pcp (53.5% vs 52.5%).
- In Americas
 - On 29 June 2016, the Group announced the sale of Sector 9. The results of Sector 9 did not meet the conditions under AASB 5 to be disclosed as a discontinued operation and are therefore included in the pcp results.
 - EBITDAI of \$29.2 million for the year compares to \$17.0 million for the pcp (an improvement of \$12.2 million). Improved gross margins and lower overheads more than offset a decrease in revenue.
 - Revenue was 10.1% lower than the pcp in as reported terms (down 7.5% in constant currency terms). The sales decline of \$35.2 million on a constant currency basis can primarily be attributed to Sector 9 (\$21.3 million included in the prior year compared to nil in the current year), a significant decline in sales to a large United States of America retailer (which was in Chapter 11 for part of the period), reductions in bricks and mortar retail (down 4.7% on a constant currency basis due to planned closures), partly offset by ecommerce revenues which were up 25.2% (excluding Sector 9). Whilst total bricks and mortar retail revenue was down, comparable bricks and mortar store sales for the region were up 2.3% on the pcp and specifically for the United States of America comparable store sales were up 2.6% on the pcp.
 - North America brand Billabong ecommerce revenues were up 32.1% on a constant currency basis.
 - Gross margins improved from 46.4% in the pcp to 49.3%.
 - Overheads were down on the pcp 4.9% in constant currency terms when excluding Sector 9 from the pcp and excluding the allocation of global overhead costs.
- In Europe
 - EBITDAI of \$10.4 million for the year compares to \$11.0 million for the pcp. Second half EBITDAI showed strong growth with EBITDAI of \$6.6 million compared to \$3.4 million for the pcp.
 - Revenue was 9.3% lower than the pcp in as reported terms (down 1.6% in constant currency terms).
 - Comparable bricks and mortar store sales were down 2.5% on the pcp.
 - Second half wholesale sales up 4.6% on a constant currency basis compared to a decline of 10.3% on a constant currency basis in the first half driven by brand Billabong.
 - Gross margin and overhead comparisons against the prior year are impacted by certain reclassifications. The most significant reclassification being that of retail freight costs being reclassified out of overheads and into cost of goods sold in the current year. This impacted gross margins in the period by 160 basis points.

Group performance including significant items and including discontinued operations

EBITDAI of \$99.3 million for the period compares to \$49.8 million for the pcp. In terms of EBITDAI, the current year includes significant items income of \$41.9 million compared to an expense of \$7.7 million for the pcp. In addition to the significant items, the comparison is impacted by the trading matters noted above and the divestment of Tigerlily.

Significant items

Pre-tax significant items for the year ended 30 June 2017 were an expense of \$64.5 million which decreased loss before income tax expense. This amount included impairment charges of \$106.5 million. Significant items impacting EBITDAI was a net income of \$41.9 million which increased EBITDAI.

Pre-tax significant items for the year ended 30 June 2016 was a net expense of \$7.7 million which decreased EBITDAI.

Refer to note 5 of the financial statements for detailed disclosure in relation to these items.

Operating and Financial Review (continued)

Depreciation and amortisation expense excluding discontinued operations

Depreciation and amortisation expense of \$29.0 million decreased 10.2% in reported terms compared to the pcp (\$32.2 million) and on a constant currency basis depreciation and amortisation expense was \$31.5 million in the pcp.

Impairment charge expense

Included in the results for the financial year ended 30 June 2017 is non-cash impairment charges of \$94.2 million relating to brands and goodwill. The vast majority of this accounting charge was recognised in response to indicators arising from the difference between the Company's share price and the carrying value of the Group's net assets, rather than specific valuation issues related to any particular brand. Refer to note 16 of the financial statements for further information.

As a result of the impairment review of other intangibles an impairment charge of \$12.2 million for the year ended 30 June 2017 was recognised to write down these assets to their recoverable amount. The great majority of this accounting charge relates to the impairment of the Omni-Channel platform finite life intangibles. Refer to note 16 of the financial statements for further information.

For the year ended 30 June 2017 these items collectively resulted in a total impairment charge of \$106.5 million.

Net interest expense

Net interest expense decreased from \$33.5 million in the pcp to \$31.3 million. On a constant currency basis net interest expense was \$32.4 million in the pcp.

Income tax expense

The statutory loss before tax for the year ended 30 June 2017 was \$67.4 million with an income tax expense of \$9.7 million. The income tax expense arises primarily from non-claimable withholding tax credits and the prevailing position that deferred tax assets are not being recognised on tax losses or temporary differences in most jurisdictions, most notably in Europe and North America. Cash payments for income taxes for the period was \$4.1 million.

In the majority of jurisdictions, the Group recognises a deferred tax asset only to the extent it offsets a deferred tax liability. This is on the basis that it is not considered probable that sufficient taxable profits will be generated in those jurisdictions to utilise a deferred tax asset in excess of the deferred tax liability. The main exceptions to this position are Australia, Japan and New Zealand where the deferred tax asset being recognised exceeds the deferred tax liability (on the basis that recovery of the deferred tax asset is probable). With the exception of New Zealand, no deferred tax asset is being recognised in respect of any tax losses on the basis that some conditions including continuity of ownership tests may not be met and utilisation of any tax losses in the other jurisdictions is not considered probable.

Consolidated balance sheet, cash flow items and capital expenditure

Working capital at \$184.9 million represents 19.1% of the prior twelve months' sales stated at year end exchange rates, being 2.0% higher compared to the pcp of 17.1% when excluding Tigerlily. Working capital as a percentage of sales at June 2017 compared to June 2016 is higher as result of a reduction in creditors as part of the Group's supplier consolidation strategy, as well as lower inventory purchases when compared to the pcp.

Cash inflow from operating activities was \$9.2 million, compared to an outflow of \$22.1 million in the pcp. Receipts from customers net of payments to suppliers and employees were \$33.1 million compared to an outflow of \$4.8 million in the pcp, primarily due to the improved working capital movements for the period compared to the pcp and lower significant item payments compared to the pcp.

Cash inflow from investing activities of \$34.1 million includes the proceeds from the sale of Tigerlily (net of divestment costs for both Tigerlily and Sector 9) totalling \$56.1 million, offset in part by payments for capex of \$21.2 million. The prior year had cash outflow from investment activities of \$34.1 million including the RVCA deferred consideration payment of \$18.6 million and capex of \$38.0 million offset in part by proceeds from the sale of Sector 9 (net of divestment costs) totalling \$16.1m.

Net debt decreased from \$185.2 million as at 30 June 2017 to \$148.6 million. The decrease includes the proceeds from the sale of Tigerlily offset in part by payment in kind interest of \$15.9 million for the year.

Operating and Financial Review (continued)

Strategy and future performance

The strategies and prospects for the Group's existing business operations are outlined below. In 2013 Neil Fiske was appointed as Chief Executive Officer and Managing Director. Since his appointment he has put in place a new executive leadership team and in December 2013 announced a strategy to improve the financial performance of the Group specifically highlighting a focus on the following key strategic priorities:

| Strategy Part | Description |
|----------------------|--|
| Brand | <ul style="list-style-type: none"> - Re-orient the Company to building strong global brands, with particular focus on the biggest three (Billabong, Element, RVCA) - Focus on the authentic core youth consumer - Implement brand management processes and disciplines - Tailor specific strategies based on the unique position of each brand, its geographic strengths, growth potential and portfolio fit - Leverage the creativity and uniqueness of the brand founders |
| Product | <ul style="list-style-type: none"> - Build a strong merchant focus for the business. Develop clear assortment strategies - category plans, key item distortion, co-ordinated product launches and optimised balance of global vs regional mix - Fewer, bigger, better styles leading to significant reduction in product lines - Implement design to adopt ratios by category; design and assort to fixture - Elevate design and innovation |
| Marketing | <ul style="list-style-type: none"> - Develop 12 month integrated marketing calendar for each region - Build customer database and establish an advanced Customer Relationship Management (CRM) programme - Re-mix spend toward digital, CRM and demand generation - Invest ahead of biggest growth opportunities (examples: RVCA and Billabong women's) |
| Omni-Channel | <ul style="list-style-type: none"> - Prioritise 'brand' before 'multi-brand' - Build direct to consumer platform (retail + digital + CRM) - Develop wholesale channel win-back strategy - Drive retail profitability through store rationalisation, productivity, rent renegotiations, specialty retail disciplines, inventory management - Unify platforms for scale benefits - cost and capability |
| Supply Chain | <ul style="list-style-type: none"> - Deliver expanded product margins through global sourcing scale and capability - Configure supply chain for speed to improve inventory turns - Consolidate suppliers - Diversify out of China for cost and capability - Drive down distribution/logistics costs |
| Organisation | <ul style="list-style-type: none"> - Develop global brand structure for the big three; foster brand specific cultures - Strengthen merchandising, design and marketing ('high leverage talent') - Build global scale in Finance, Supply Chain, IT and Direct to Consumer (DTC) platforms - Rationalise general administration structure based on organisational design and spans/layers - Re-energise the organisation with focus on 'offense' and 'defence' agenda |
| Financial Discipline | <ul style="list-style-type: none"> - Strategy determines resource allocation and management Key Performance Indicators - Drive inventory and other working capital improvement; focus on cash flow conversion - Prioritise capital expenditure towards customer facing and enabling projects |

Operating and Financial Review (continued)

Strategy and future performance (continued)

In the year ended 30 June 2017 the Group continued to make progress in relation to the execution of the strategy, however there were setbacks in relation to the Omni-Channel initiative.

According to independent analysis conducted by ActionWatch, in calendar year 2016 brand Billabong widened its #1 lead position in the core surf channel in the United States of America however the brand did contract in Australia during the same period.

Since the strategy was established in 2013, a number of changes to external conditions have impacted on the Group such that the positive impact of the strategic initiatives outlined above have not resulted in higher overall EBITDAI. In particular, changes in foreign exchange rates and weakness among the Group's largest wholesale customers in the United States of America and Australia have impacted profitability. These changes make the major reform initiatives described below even more important if the Group is to achieve improved profitability.

In the year ended 30 June 2015 the Group consolidated its reform initiatives into four major cross regional/cross brand projects that are expected to underpin the delivery of the Group's strategy over the next few years. A description and summary of these projects, together with a status update, is set out below:

| Project/Initiative | Description | Status |
|---------------------|---|---|
| Omni-Channel | <ul style="list-style-type: none"> - To develop true Omni-Channel retailer capability - Single view of the customer - Single view of inventory - Modernise and standardise merchandising and allocation systems - World class ecommerce and Application experiences - Effective CRM program | <ul style="list-style-type: none"> - Repatriated all 13 websites - Build DTC technology teams - Formed new organization to accelerate Digital Commerce; appointed new global leadership for Digital Commerce and User Experience reporting to the CEO - Invested in digital commerce talent and capability in each region - Pilot tested new store planning and allocation system in Australia with implementation scheduled for H1 FY18 - Implemented digital business to business (BTB) commerce platform |
| Sourcing | <ul style="list-style-type: none"> - To develop a global approach to product sourcing to reduce cost and improve speed to market and efficiency | <ul style="list-style-type: none"> - Formed new Global Sourcing Organisation - Restructured the BBG Asia office - Launched BV Social Compliance Audit - Factory Certified Quality Audit Program (80+ auditors trained) - Revised quality assurance manual - Narrowed preferred vendors by more than 50% - Updated vendor profiles for all preferred factories - Transitioned vendors to new payment terms - Initiated vendor capacity planning process - Completed Standard Operating Procedures for manufacturing - Delivered targeted improvements in product margin |
| Logistics | <ul style="list-style-type: none"> - To develop a global approach to product logistics to reduce cost and improve speed to market and efficiency | <ul style="list-style-type: none"> - Completed global design of distribution and logistics network - Selected 3rd Party Logistics provider (3PL) for North America Omni-Channel fulfilment - Selected global freight partner to minimize transportation costs - Closed Canadian warehouse - Set up consolidations centres with 3PL distributor in Asia to allow for direct shipment to stores, wholesale accounts, distributors, and smaller countries; pilot tested new processes and ramping up volume through the centres through FY18 |
| Concept to Customer | <ul style="list-style-type: none"> - To complete a holistic process redesign of our entire design to delivery process to improve speed to market, assist more informed buying decisions, and reduce inventory markdowns | <ul style="list-style-type: none"> - Consistent, repeatable merchandise planning, design and development processes and calendars rolled out globally - Sourcing support steps incorporated into early design and development calendars to quicken order to delivery times - Speed to market 'quick strike' teams formed in each of the regions |

Operating and Financial Review (continued)

Material risks

The material risks that have the potential to affect the financial prospects of the Group, and the manner in which the Group manages these risks, include:

| Risk | Description and potential consequences | Treatment strategies employed by the Group |
|----------------------------|--|---|
| Brand | Possible damage or loss of market appeal to the brands or the image of the Group's brands. | The Group addresses this risk through keeping abreast of economic and consumer data/research, innovative product development and brand management. Also refer to the aforementioned strategy which details the prominence of brand positioning as a key component of the strategy. |
| Fashion | Failure to design and deliver products that appeal to customers. | The Group addresses this risk through customer feedback, innovative product development, brand building and seeing and reacting to early trends through the Group's direct to consumer channel. Also refer to the aforementioned strategy which details the prominence of product design and innovation as a key component of the strategy. |
| Macro-economic environment | The financial performance of the Group will fluctuate due to various factors including movements in the Australian and international capital markets, interest rates, foreign currency exchange rates, inflation, consumer sentiment, macro-economic conditions in the markets in which Group operates (including any significant and extended economic downturn in Australia, Asia, North America, Europe and South America), change in government, fiscal, monetary and regulatory policies, prices of commodities, investor perceptions and other factors that may affect the Group's financial position and earnings. | The Group seeks to mitigate the severity of the impact that a deterioration of economic conditions in a single country, region or market may have by operating businesses and brands that are diversified in terms of geographic locations and, within the actions sports segment, a diversification of target markets, products and customers servicing a number of end markets. The Group does not have any dependencies on key customers given its diverse customer base. |
| Currency fluctuations | The Group receives revenue in more than ten currencies and movements in these currencies could have an impact on the Group's profitability and net asset position. This risk arises when assets and liabilities, and forecasted purchases and sales are denominated in a currency other than the functional currency of the respective entities. As sales are mainly denominated in the respective local currency, whereas the major inventory purchases are typically negotiated and denominated in United States Dollars (USD). This creates input pricing risk for all markets other than the United States of America. | Group Treasury undertakes financial risk management policies approved by the Board. The Group identifies opportunities to improve treasury efficiency where possible. The input pricing risk is mitigated to an extent by product purchase hedging, but significant movements in the USD still impact the comparability of profitability of seasons between financial years. Whilst the Group's principal borrowing facility is a USD denominated term loan, this in itself does not create an income statement foreign exchange risk as at 30 June specifically. Currency exposure arising from the net assets of the Group's foreign operations is managed where possible primarily through borrowings denominated in the relevant currency. |
| Debt covenants | Failure to comply with its financial covenants caused by a significant decline in revenue or earnings or a further material change in the AUD:USD exchange rate may require the Group to seek amendments, waivers of covenant compliance or alternative borrowing arrangements. | The Group is focussed on delivering the strategy to mitigate this risk. During the financial year the Group renegotiated (at no cost to the Group), the basis of the covenant calculation in the term loan so as to reduce the volatility by aligning the exchange rates used in converting into Australian Dollars both the debt (of the covenant calculation) and the Americas EBITDAI contribution. In the event of covenant risk the Group could look to sell assets, raise equity or renegotiate financial undertakings. |
| Competition | The Group competes for discretionary income spend and not just with other action sports participants. The Group's performance may be adversely affected by competitors' actions, for example, by lowering their sale prices or creating new product lines that are more attractive in the marketplace or by agreeing to pay more for production, other services or talent and employment costs or alternate channels to market. | The Group addresses this risk by focusing on innovative product development and brand building to promote customer loyalty and remunerating employees fairly. |

Operating and Financial Review (continued)

Material risks (continued)

| Risk | Description and potential consequences | Treatment strategies employed by the Group |
|--|--|--|
| Seasonal factors | Part of the Group's business is seasonal in nature and prolonged unseasonal weather conditions in a particular region may adversely affect sales in that region. | The Group seeks to mitigate the severity of the impact that prolonged unseasonal weather conditions in a particular region may have by operating businesses and brands that are diversified in terms of geographic locations. |
| Product sourcing and delivery | A material disruption in the capabilities and availability of the Group's product sourcing and/or delivery arrangements could have an adverse impact on the Group, given the importance of the quality, performance and timely delivery of our products. | <p>The Group addresses this risk by planning the capacity utilisation of its preferred mills and factories well below their full capacity, securing space on their production lines that is most advantageous to the Group's calendar and supply chain needs, and maintaining secondary production alternatives among the Group's preferred vendors.</p> <p>The Group maintains relationships with a number of suppliers for its products to help mitigate supply and supplier dependency risks.</p> <p>The Group has a vendor matrix which is a list of vendors and factories which have been audited for social compliance and a full factory audit has been done to assess their quality, capabilities and capacity. It is the Group's strategy to source the majority of its products from the vendors and factories included in the matrix.</p> |
| Online retailing | Continued migration of consumers to online retail purchases may adversely impact the performance of the Group's bricks and mortar retail outlets and wholesale customers and regional gross margins. | The Group addresses this risk by focusing on the Omni-Channel strategy, which is designed to: 1) provide a seamless customer experience across all channels, 2) unlock the full value of the multi-channel shopper who are typically worth 2-3x the value of a single channel shopper, 3) move inventory more effectively across channels to its best customer use, improving inventory turn and lowering markdown; and 4) deliver a relationship based marketing program that increases frequency, loyalty, and customer lifetime value. |
| Centerbridge / Oaktree (C/O) Consortium's involvement in the Group | While the C/O Consortium has a substantial equity ownership in the Company and is therefore likely to be focused on maximising value (and therefore its incentives should be broadly aligned to those of other shareholders), there is a risk that as a debt holder the C/O Consortium's interests may not always align with those of other shareholders. If so, the C/O Consortium's significant holding of shares and entitlement to nominate two Directors to the Board mean it would be in a position to influence decisions of the Company. | The Group mitigates this risk by ensuring that the Board and all Board committees are chaired by an Independent Director, there is a majority of Independent Directors on all committees and that the C/O Consortium's nominated director does not have any business interest or other relationships that could materially interfere with the exercise of their independent judgement and their ability to act in the best interest of the Company. |
| Social risk | The Group sources goods manufactured in countries such as China, where there have been risks surrounding the workplace health and safety standards of factories. | The Group is utilising an external auditing body to audit social compliance of the Company's factories against an approved Code of Conduct, which contains standards equivalent to SA8000 and Worldwide Responsible Accredited Production (WRAP). |
| Valuation of assets | The Group is required to assess at each reporting date whether there is any indication that an asset may be impaired. Depending on earnings performance and share price trading levels, the Group's assets may be required to be written down or become impaired (in accordance with relevant accounting standards), which may negatively impact the Group's financial performance and position. | The Group is focussed on delivering the strategy to mitigate this risk. |
| Funding may not prove sufficient to execute the Company's strategy | Should the Group experience a protracted decline in earnings, there is a possibility that the quantum of debt funding available to the Company would not be sufficient to execute its strategy, which could have a negative impact on its future financial performance or position. | <p>The Group is focussed on delivering the strategy to mitigate this risk.</p> <p>On 14 July 2016, the Group announced that it had refinanced its asset-based multi-currency revolving credit facility.</p> <p>In the event that the Group's debt funding is not adequate the Group could look to sell assets or raise equity.</p> |

Operating and Financial Review (continued)

Material risks (continued)

| Risk | Description and potential consequences | Treatment strategies employed by the Group |
|---|--|--|
| Strategy implementation risk / Project risk | The Group's strategy includes significant process and system reform. | <p>Effective change management is a key mitigant in respect of the disruption and project risk inherent in such an agenda.</p> <p>Continuous progress reporting to the Board for the Group's key projects occurs, to help ensure the effective allocation of resources to each project.</p> <p>From time to time external contractors are engaged to review project and reform plans.</p> |
| Business interruption risk | Inability to resume operations in an acceptable time after an unplanned event/disaster. The risk that key information is unable to be recovered. | <p>The Group undertakes business continuity planning and disaster preparedness for high-value or strategically important sites. In addition, management undertakes continuous identification, review and management of property risks.</p> <p>The Group also operates businesses and brands that are diversified in terms of geographic locations and therefore it would reduce the risk that an unplanned event/disaster could impact all businesses at once.</p> <p>The Group also has business interruption insurance.</p> |
| Tax risks | <p>The Group operates in many countries, each with unique and dynamic tax environments. The tax affairs of operations in each country may be adversely impacted by changes in the fiscal or regulatory regimes, differences in interpretation of the local tax laws of those countries, and changes to current political, judicial or administrative policies relating to tax.</p> <p>There is an ongoing risk that any changes in shareholdings of the group (particularly in relation to the United States of America (USA) tax losses) could result in a limitation on the utilisation of the tax losses.</p> | <p>The Group's tax affairs are managed in accordance with a tax risk framework that is agreed with, reviewed and reported against by the Audit and Risk Committee on a regular basis. This framework ensures that:</p> <ul style="list-style-type: none"> - Tax risks across the company are identified, monitored and managed - Tax risks are prioritised so that appropriate attention and action can be taken on key risks - An active approach to tax risk management is pursued (including an open and co-operative approach with revenue authorities) - Informed judgement is exercised to establish the required level of provisioning for financial statement purposes |

Matters subsequent to the end of the financial year

On 28 July 2017, the Company announced that the agreement with the previous Omni-Channel solution provider had been terminated. The Company remains committed to rolling out its Omni-Channel solution and expects to deliver the overall solution materially close to its original range of budget expectations. As a result of termination of the agreement, an impairment expense has been recognised in the financial year ended 30 June 2017. Refer to note 16 of the financial statements.

Other than the item noted above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature that would be likely, in the opinion of the Directors, to significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Likely developments and expected results of operations

Looking forward to the 2018 financial year, the composition of the earnings will continue to be weighted towards Asia Pacific and retail in the first half, and towards the Americas and Europe in the second half. In FY18 the Group expects to show further progress in the Americas and Europe, although circumstances that have impacted the Asia Pacific performance in FY17 are expected to continue to weigh on trading in that region, especially in the first half.

Overall, the group expects FY18 EBITDAI (excluding significant items) to exceed FY17 EBITDAI of \$51.1 million, subject to reasonable trading conditions and currency markets remaining relatively stable. Given the increasing proportion of earnings represented by the Americas and Europe, the earnings profile for FY18 is expected to be similar to FY17, with the first half EBITDAI below the prior corresponding period and all the growth biased towards the second half.

Environmental regulation

The Group is not subject to any significant environmental regulation or mandatory emissions reporting.

Information on Directors

IAN POLLARD

(Non-Executive Chair)

Experience and expertise

Dr Ian Pollard is an actuary, Rhodes Scholar and a Fellow of the Australian Institute of Company Directors. He has held a wide range of senior business roles including as Chair of Just Group Limited and as a Director of OPSM Group Limited and DCA Group Limited, which he founded.

He is currently Chair of RGA Reinsurance Company of Australia Limited and an executive coach with Foresight's Global Coaching.

With an extensive background in corporate finance, strategic investment and retail, Dr Pollard has chaired several public company audit committees and was a member of the ASX Corporate Governance Implementation Review Group from 2003 to 2007.

Mr Pollard was appointed as Non-Executive Director and Chair of the Company on 24 October 2012.

Other current directorships

Milton Corporation Limited, director since 6 August 1998.

Shopping Centres Australasia Property Group, stapled securities of Shopping Centres Australasia Property Management Trust and Shopping Centres Australasia Property Retail Trust (director of responsible entity, Shopping Centres Australasia Property Group RE Limited (SCPRE), director since 26 September 2012.

Former directorships in last 3 years

No former directorships of Australian listed entities.

Special responsibilities

Chair of the Board and Nominations Committee and member of Human Resource and Remuneration and Audit and Risk Committees.

Interests in shares and options

50,596 ordinary shares in Billabong International Limited.

MCNEIL SEYMOUR FISKE JR

(Executive Director)

Experience and expertise

Neil Fiske has over 25 years of experience in the consumer and retail industry as an operator, consultant and investor. Prior to joining the Company he was an industry partner to Canadian private equity firm Onex, where he acted as an advisor focused on retail.

From 2007 to 2012 Mr Fiske was CEO of Eddie Bauer an outdoor lifestyle store chain based in the USA. From 2003 to 2007 Mr Fiske was the CEO of Bath and Body Works, a division of NYSE listed Limited Brands. From 1989 to 2003 he was in the Consumer and Retail Practice of the Boston Consulting Group. Mr Fiske received an M.B.A. from Harvard Business School and a B.A. in Political Economy from Williams College.

Other current directorships

No other directorships of Australian listed entities.

Former directorships in last 3 years

No former directorships of Australian listed entities.

Special responsibilities

Chief Executive Officer and Managing Director.

Interests in shares and options

491,072 ordinary shares in Billabong International Limited.

771,330 market priced options under the Billabong International Limited Executive Incentive Plan.

1,799,770 premium priced options under the Billabong International Limited Executive Incentive Plan.

GORDON MERCHANT AM

(Non-Executive Director)

Experience and expertise

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

Mr Merchant was appointed as Non-Executive Director of the Company on 4 July 2000.

Other current directorships

No other directorships of Australian listed entities.

Former directorships in last 3 years

No former directorships of Australian listed entities.

Special responsibilities

None.

Interests in shares and options

24,386,908 ordinary shares in Billabong International Limited.

Information on Directors (continued)

HOWARD MOWLEM

(Non-Executive Director)

Experience and expertise

Howard Mowlem is experienced in many segments of the international retail industry and specifically in Asia. From 2001 to 2010 he was Chief Financial Officer of Dairy Farm International Holdings Limited, a Hong Kong based retail company operating over 5,000 stores across Asia with turnover in excess of US\$10 billion. Prior to this Mr Mowlem held various senior financial positions over a 12 year period with the Coles Myer Group.

He brings extensive experience in corporate finance, mergers and acquisitions, financial reporting, treasury, tax, investor relations, audit and governance. Mr Mowlem holds a Bachelor of Economics (Hons), M.B.A. and Securities Industry Diploma. He is a Fellow of CPA Australia.

Mr Mowlem was appointed as Non-Executive Director of the Company on 24 October 2012.

Other current directorships

Super Retail Group Limited, director since 13 June 2017.

Former directorships in last 3 years

No former directorships of Australian listed entities.

Special responsibilities

Chair of Audit and Risk Committee, Acting Chair of Human Resource and Remuneration Committee between 15 August 2016 and 8 December 2016 and member of Nominations and Human Resource and Remuneration Committees.

Interests in shares and options

27,500 ordinary shares in Billabong International Limited.

KIM ANDERSON

(Non-Executive Director from 9 December 2016)

Experience and expertise

Kim Anderson brings extensive experience in the digital and e-commerce sectors and in the media and publishing industries. Ms Anderson is currently a Non-Executive Director for Carsales.com.au and WPPAUNZ (formed this year from the merger of STW Group and WPP). She also chairs the Remuneration Committee of both companies and up until May 2016 was Chief Executive Officer of Reading Room, Inc and has recently been appointed as Non-Executive Director of The Sax Institute, a non-for-profit organisation that reduces the gap between evidence based research and health policy. She also has experience as a Director of both listed and unlisted companies, including a Fellow of Senate of the University of Sydney from 2004 to 2011, and is on the Board of the University of Sydney, North American Alumni Association.

Ms Anderson has a Bachelor of Arts from the University of Sydney, and a Postgraduate Diploma in Library and Information Science from the University of Technology Sydney.

Ms Anderson was appointed as Non-Executive Director of the Company on 9 December 2016.

Other current directorships

WPP AUNZ Limited, director since 10 November 2010.

Carsales.com Limited, director since 16 June 2010.

Former directorships in last 3 years

No former directorships of Australian listed entities.

Special responsibilities

Chair of Human Resource and Remuneration Committee and member of Audit and Risk and Nominations Committees.

Interests in shares and options

None.

ELLIOTT WEINSTEIN

(Non-Executive Director from 3 July 2017)

Experience and expertise

Elliott Weinstein is a Managing Director at Centerbridge Partners, L.P and focuses on investments in the retail and consumer, and industrial sectors. Mr. Weinstein previously served within the Investment Banking Division at Goldman, Sachs & Co. He is a Director of KIK Custom Products, Inc, Cardinal Logistics, LLC and Syncreon and previously served as a Director of The Kenan Advantage Group, Inc. Mr Weinstein holds a BA from the Richard Ivey School of Business at the University of Western Ontario, where he was honoured for graduating first in his class.

Mr Weinstein was appointed as Non-Executive Director of the Company on 3 July 2017.

Other current directorships

No other directorships of Australian listed entities.

Former directorships in last 3 years

No former directorships of Australian listed entities.

Special responsibilities

Member of Nominations, Human Resource and Remuneration and Audit and Risk Committees.

Interests in shares and options

None.

Information on Directors (continued)

JASON MOZINGO

(Non-Executive Director until 30 June 2017)

Experience and expertise

Jason Mozingo was a Senior Managing Director at Centerbridge Partners, L.P until his resignation on 30 June 2017.

Mr Mozingo focused on the firm's retail and consumer investment efforts. Prior to joining Centerbridge Partners, L.P, he was a Principal with Avista Capital Partners (spun-out of DLJ Merchant Banking in 2005) and DLJ Merchant Banking Partners, a leverage buyout group managing in excess of US\$9 billion. He joined DLJ in 1998.

Mr Mozingo graduated from UCLA Phi Beta Kappa, summa cum laude with a degree in economics and received an M.B.A. with high distinction from Harvard Business School in 1998, where he was a Baker Scholar. He is a CFA charter holder and a member of the CFA Institute. He is Chairman of the Board of CraftWorks Restaurants & Breweries and on the Board of Trustees of the International Council of Shopping Centers (ICSC). In addition, during the financial year and prior to his resignation from Centerbridge Partners, L.P, he was on the boards of P.F. Chang's, Heartland Food Products Group and Bluestem Group.

Mr Mozingo was appointed as Non-Executive Director of the Company on 4 November 2013 and resigned on 30 June 2017.

Other current directorships

No other directorships of Australian listed entities.

Former directorships in last 3 years

No former directorships of Australian listed entities.

Special responsibilities

Member of Nominations, Human Resource and Remuneration, and Audit and Risk Committees.

Interests in shares and options

None.

AMAR DOSHI

(Alternate Director for Jason Mozingo until 4 August 2016)

Experience and expertise

Amar Doshi was a Principal at Centerbridge Partners, L.P and focused on the firm's investments in the retail and consumer sectors. Prior to joining Centerbridge Partners, L.P, Mr Doshi was a Vice President at Bain Capital and previously was an Associate Consultant at Bain & Company. Mr Doshi graduated class valedictorian with a B.S. in electrical engineering from Columbia University and received an M.B.A. with honors from The Wharton School of the University of Pennsylvania.

Mr Doshi was appointed as Alternate Director of the Company on 10 December 2013 and resigned on 4 August 2016.

Other current directorships

No other directorships of Australian listed entities.

Former directorships in last 3 years

No former directorships of Australian listed entities.

Special responsibilities

None.

Interests in shares and options

None.

SALLY PITKIN

(Non-Executive Director until 15 August 2016)

Experience and expertise

Dr Sally Pitkin has over twenty years' experience as a non-executive director in the listed, private, public and non-profit sectors. She has thirteen years' experience as a non-executive director of ASX200 companies, including experience in international markets. Industry sectors in which she has experience as a non-executive director include retail, finance and insurance, technology commercialisation, gaming, energy and transport. She is a lawyer and former partner of Clayton Utz with banking law, corporate law and corporate governance expertise. Dr Pitkin is a non-executive director and Fellow of the Australian Institute of Company Directors and is President of the Queensland Division. She holds a Doctor of Philosophy (Governance), awarded in 2012, a Master of Laws and Bachelor of Laws.

Dr Pitkin was appointed as Non-Executive Director of the Company on 28 February 2012 and resigned on 15 August 2016.

Other current directorships

Super Retail Group Limited, director since 1 July 2010.

IPH Limited, director since 23 September 2014.

Star Entertainment Group Limited, director since 19 December 2014.

Link Administration Holdings Limited, director since 23 September 2015.

Former directorships in last 3 years

No former directorships of Australian listed entities.

Special responsibilities

Chair of Human Resource and Remuneration and Class Action Committees and member of Audit and Risk and Nominations Committees until her resignation on 15 August 2016.

COMPANY SECRETARY

The Company Secretary is Ms Tracey Wood, BA (Psych), LLB, LL.M. Ms Wood was appointed to the position of Company Secretary on 18 July 2014 and continues as Company Secretary at the date of this report. She joined the Company on 1 July 2008 and is the International General Counsel for the Group.

Information on Directors (continued)

Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2017, and the numbers of meetings attended by each Director, were:

| | Billabong International Limited Board | | | | Audit and Risk Committee | | Human Resource and Remuneration Committee | | Nominations Committee | |
|----------------------------|---------------------------------------|----------|----------------------|----------|--------------------------|----------|---|----------|-----------------------|----------|
| | Scheduled Meetings | | Unscheduled Meetings | | Held | Attended | Held | Attended | Held | Attended |
| | Held | Attended | Held | Attended | | | | | | |
| I. Pollard | 13 | 13 | 1 | 1 | 4 | 4 | 5 | 5 | 2 | 2 |
| N. Fiske | 13 | 13 | 1 | 1 | A | A | A | A | A | A |
| G.S. Merchant | 13 | 13 | 1 | 1 | A | A | A | A | A | A |
| H. Mowlem | 13 | 13 | 1 | 1 | 4 | 4 | 5 | 5 | 2 | 2 |
| K. Anderson ^B | 7 ^B | 6 | 1 | 1 | 3 | 3 | 3 ^B | 3 | 1 ^B | 1 |
| J. Mozingo ^C | 13 | 13 | 1 | 1 | 4 | 4 | 5 | 5 | 2 | 2 |
| S.A.M. Pitkin ^D | 1 ^D | 1 | 0 | 0 | 0 ^D | 0 | 0 ^D | 0 | 0 ^D | 0 |
| A. Doshi ^E | - | - | - | - | - | - | - | - | - | - |

^A Not a member of the relevant Committee.

^B Appointed as Director effective 9 December 2016.

^C Resigned effective of 30 June 2017.

^D Resigned effective of 15 August 2016.

^E Alternate Director for Jason Mozingo with resignation effective from 4 August 2016.

Remuneration Report

Message from the Board

The Board of Billabong International Limited presents the Remuneration Report for the financial year ended 30 June 2017 (current year).

Over the past year the content and structure of the remuneration report has been reviewed for opportunities to simplify and increase its relevance to the readers. This included a review of content to eliminate immaterial and duplicative information that overcomplicates the intended disclosures.

Key Management Personnel (KMP)

During the current year, there were a few changes to our KMP. On 1 July 2016, Michael Yerkes was appointed to the role of Senior Vice President (Sr. VP), Global Operations and commenced in his KMP role from 10 January 2017 when he took on responsibility for the implementation of the Group's Omni-Channel project. On 18 April 2017, following periods of continuous growth for RVCA and in line with the brand being of strategic importance to the Group's future growth, Kevin Meehan was appointed as the General Manager of RVCA. From the date of Kevin's appointment, he has been deemed KMP and will focus on growing the brand further. As announced on 1 June 2017, Jim Howell was appointed as the Group's Chief Financial Officer (CFO) effective 12 June 2017. Jim brings a strong financial background with several years of experience leading the finance and treasury division at Nordstrom, Inc., and played a key role in the implementation of their Omni-Channel retailing strategy. The Board believes that Jim's experience in retail, finance and operational management will strongly align with the Group's business strategy. Peter Myers remains committed to supporting the Group during the transition and has agreed to continue to work with the leadership team for a few months.

Two of our new KMP received a sign-on incentive as part of their offer to join the Group. In both cases, the executives were walking away from either an imminent short-term incentive payment or time-vesting long-term incentives. In the exceedingly challenged retail industry and competitive USA labour market, we need to keep base salaries at a reasonable level and so we have used these types of incentive in order to attract talent. Kevin Meehan received a cash sign-on incentive paid in two instalments (US\$50,000 at commencement of employment and US\$50,000 after the completion of the fiscal year ending 30 June 2018). Jim Howell received performance rights that vest 50% after one year of employment and 50% after two years of employment. We believe structuring the sign-on incentives in this way serves as a retention tool for our new executives, and focuses Jim on value creation for our shareholders.

Prior to the current year, the Group granted KMP their Long-Term Incentive (LTI) awards in the form of performance rights subject to pre-tax Earnings Per Share (EPS) and relative Total Shareholder Return (TSR) performance hurdles. In the current year, LTI was granted in the form of market priced and premium priced options. While specific performance hurdles were not assigned, vesting is contingent on continued service for three years and the options will only have value if the Group's share price increases over the share price at the time of the grant. In addition, the majority (70%) of the options were issued to the KMP with an exercise price that was 50% higher than the share price at the time of grant, and the share price will therefore need to increase significantly for these options to have any value. The Board believes that given the continuing challenges within the retail industry and the Group's turnaround strategy, the use of options as the vehicle for the LTI awards in the current year was appropriate. They will provide the KMP with a simple and direct line of sight between increasing shareholder value and company performance. The Board has determined that given the continued focus on the turnaround, time vesting options remain an appropriate LTI vehicle for the financial year ending 30 June 2018.

The link between performance and reward remains strong. No KMP received a payment under the Group's Short-Term Incentive Plan with the exception of Shannan North, who received a payment based on Global Brand Billabong performance. In addition, no performance-based Long-Term Incentive rights vested.

We believe that our approach to KMP remuneration remains linked to shareholder value and fulfils the purpose of attracting, incentivising and retaining executives who are most qualified to lead our business.

Non-Executive Directors

The Non-Executive Director fees were not increased for the second consecutive year, and will not increase for the financial year ending 30 June 2018.

Effective 9 December 2016, I was appointed to the Board of Directors and chair of the Human Resources and Remuneration Committee to replace Dr. Sally Pitkin, who resigned effective 15 August 2016. Howard Mowlem served as interim chair after Sally's resignation and prior to my appointment. The Group believes that my experience in the digital and ecommerce sectors will enhance the Board's range of attributes, experience and skills. I along with other Directors will be put forth for election at the 2017 Annual General Meeting.



Kim Anderson
Human Resources and Remuneration Committee Chair

Remuneration Report (continued)

1. Introduction

This Group Remuneration Report forms part of the Directors' report and has been audited in accordance with the *Corporations Act 2001*.

The Remuneration Report details remuneration information for the Key Management Personnel of the Group, comprising the Non-Executive Directors, the Managing Director and Chief Executive Officer (CEO) and Group Executives who led significant parts of the business.

2. Remuneration Governance

The Group's remuneration strategy, policies and practices are designed to support the strategy and operational demands of the business, and to fairly reward employees having regard to sustainable performance, shareholder returns and good governance. The Board provides guidance on the remuneration strategy, and oversight of the remuneration policies and practices. To assist with this responsibility, the Board has a HR and Remuneration Committee made up of Non-Executive Directors only.

The primary objective of the Committee is to assist the Board in establishing remuneration policies and practices which:

- Enable the Group to attract and retain executives and Directors (Executive and Non-Executive) who will create sustainable value for shareholders;
- Fairly and responsibly reward executives and Directors having regard to the Group's overall strategy and objectives, the performance of the Group, the performance of the executive and the general market environment within the geographic locations where the Group has operations;
- Link reward to the creation of sustainable value for shareholders; and
- Comply with the law and high standards of governance.

The Group's HR and Remuneration Committee Charter and Group Remuneration Policy, which document the Group's overall approach to remuneration, are available on the corporate website at www.billabongbiz.com. The Group's Remuneration Policy is reviewed annually by the Committee.

The Board approves, based on recommendations from the HR and Remuneration Committee, all remuneration decisions and outcomes for the CEO, and all executives who report directly to the CEO.

The Committee draws on the services of independent remuneration advisors from time to time. Independent remuneration advisors are engaged by, and report directly to, the Committee and provide advice and assistance on a range of matters, including:

- Updates on remuneration trends, regulatory developments and shareholder views;
- Review, design or implementation of the executive remuneration strategy and its underlying components (such as incentive plans); and
- Market remuneration analysis.

Recommendation provided

No remuneration recommendations from independent remuneration advisors were received during the current year.

Securities Trading Policy

Executives are prohibited under the Group's Securities Trading Policy from hedging, short selling or otherwise reducing or eliminating the risk associated with equity-based incentives. If the executive hedges in breach of this policy, their incentives will be forfeited or lapse accordingly.

3. Key Management Personnel disclosed in this report

Non-Executive Directors

| | |
|--------------------|--------------------------------------|
| Ian Pollard | Chair |
| Kim Anderson | Director (appointed 9 December 2016) |
| Gordon Merchant AM | Director |
| Howard Mowlem | Director |
| Jason Mazingo | Director (resigned 30 June 2017) |
| Sally Pitkin | Director (resigned 15 August 2016) |
| Elliott Weinstein | Director (appointed 3 July 2017) |

Remuneration Report (continued)

3. Key Management Personnel disclosed in this report (continued)

Executive Directors

| | |
|------------|---|
| Neil Fiske | Managing Director and Chief Executive Officer |
|------------|---|

Group Executives classified as KMP

| | |
|----------------------|---|
| Paul Burdekin | General Manager (GM), Asia Pacific |
| Jim Howell | Chief Financial Officer (CFO) (commenced employment from 12 June 2017) |
| Kevin Meehan | Global General Manager RVCA (commenced employment from 18 April 2017) |
| Peter Myers | Chief Financial Officer (CFO) until 11 June 2017 ¹ |
| Shannan North | Global President, Brand Billabong |
| Jean-Louis Rodrigues | General Manager, Europe |
| Michael Yerkes | Senior Vice President (Sr. VP), Global Operations (commenced KMP role from 10 January 2017) |

¹ Peter Myers resigned from the role of Chief Financial Officer on 11 June 2017 and commenced a transitionary role with the Group as a Financial Project Consultant on 12 June 2017. Based on the change in role, it was deemed that he was no longer a KMP from 12 June 2017.

Executive Key Management Personnel profiles

Neil Fiske, Executive Director, Chief Executive Officer and Managing Director

Neil Fiske joined the Group on 21 September 2013 as CEO and Managing Director. He has 25 years of experience in the consumer and retail industry as an operator, consultant and investor. Prior to joining the Group, Neil was an Industry Partner to Canadian private equity firm Onex, where he acted as a senior advisor focused on retail; CEO of Eddie Bauer; CEO of Bath and Body Works, a division of NYSE listed Limited Brands; and a Partner in the Consumer and Retail Practice at the Boston Consulting Group. Neil received an M.B.A from Harvard Business School and a B.A. in Political Economy from Williams College.

Paul Burdekin, General Manager Asia Pacific

Paul Burdekin joined the Group on 21 January 2008 as General Manager for Tigerlily, and his brand portfolio quickly grew to include Von Zipper, RVCA and Nixon. Prior to joining the Group, Paul held international and domestic senior management roles within the retail and wholesale industry. In March 2014, Paul was promoted to KMP role, Acting General Manager Asia Pacific. This role was confirmed on 17 July 2014. Paul holds an M.B.A. and Bachelor of Industrial Design.

Jim Howell, Chief Financial Officer

Jim Howell joined the Group on 12 June 2017 as Chief Financial Officer. He has over 25 years of experience in his field, most recently in the retail industry. Prior to joining the Group, Jim held senior roles at Nordstrom, Inc., Blockbuster, Inc., CAE SimuFlite and PricewaterhouseCoopers. Jim is a CPA and holds a Graduate degree and a Bachelor of Science in Business Administration.

Kevin Meehan, Global General Manager RVCA

Kevin Meehan joined the Group on 18 April 2017 as Global General Manager RVCA. He has extensive experience in the action sports industry. Prior to joining the Group, Kevin held senior roles at Volcom, Analog Clothing and Gravis Footwear at Burton Snowboards and Hurley. Kevin holds a Bachelor of Business Administration.

Peter Myers, Chief Financial Officer

Peter Myers joined the Group on 14 January 2013 as Chief Financial Officer. He has over 30 years of experience in his field, primarily in the diversified media industry. Prior to joining the Group, Peter held CFO roles at Northern Star Holding LTD, Century Yuasa Batteries, Network Ten Limited and APN News & Media Limited. In 2013, he also held the position of acting CEO for the Group from 5 August to 19 September. Peter is a CPA and holds a Bachelor of Business.

Shannan North, Global President, Brand Billabong

Shannan North joined the Group on 9 August 1993, working in various retail, marketing, sales and merchandising roles. Shannan was appointed General Manager Asia Pacific in 2004. On 3 March 2014 Shannan was promoted to Global President, Brand Billabong and on 30 January 2016, took over responsibilities for the Americas retail operations as well as Billabong wholesale sales operations in North America.

Jean-Louis Rodrigues, General Manager Europe

Jean-Louis Rodrigues joined the Group on 3 September 2008 as Europe's Retail Director. He has extensive experience in the action sports industry, including senior roles at Reebok, Quiksilver and O'Neill where he was the General Manager for southern Europe. In September 2013 Jean-Louis was promoted to KMP role, Acting General Manager Europe. This role was confirmed in December 2013. He holds qualifications in International Commerce.

Michael Yerkes, Senior Vice President, Global Operations

Michael Yerkes joined the Group on 1 July 2016 as the Sr. VP, Global Operations and commenced his KMP role 10 January 2017. He has over 15 years of experience in senior operations roles in the apparel and footwear industry. Prior to joining the Group, Michael held positions at Caleres, Gina Group, Performance Team, The Moret Group and Jones Group. He holds an M.B.A. and Bachelor of Science in Industrial Engineering.

Profiles of Non-Executive Directors can be found in the Information on Directors section of the Directors' report.

Remuneration Report (continued)

4. Remuneration strategy and outcomes

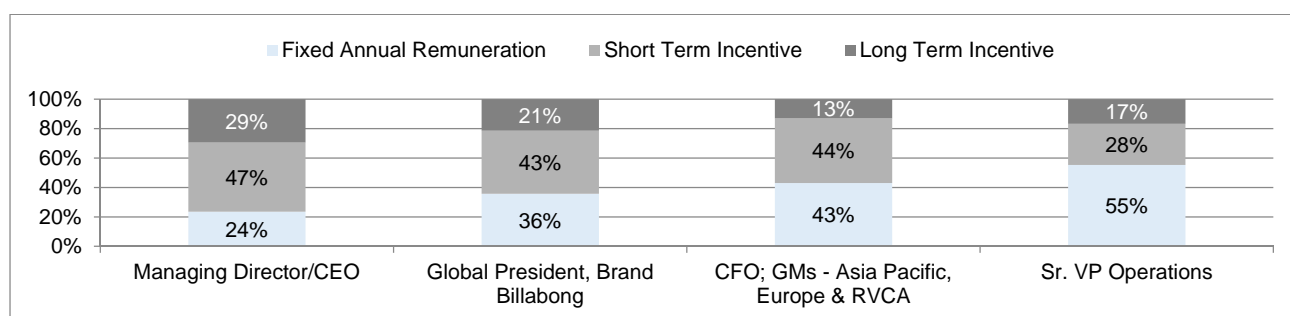
4.1 Remuneration strategy

The Group's executive remuneration strategy provides a strong link between performance and reward by making executive long-term reward outcomes dependent on delivering long-term value to shareholders. At the same time, the strategy motivates and retains top talent through market competitive fixed remuneration and an incentive framework that rewards for annual results.

Remuneration mix

The target remuneration mix for Executive KMP is as follows. As executives gain seniority within the Group, the balance of the remuneration mix shifts to a higher proportion of variable reward to strengthen the connection between reward and performance.

Chart A: Remuneration mix (non-statutory: cash salary only, Short-term incentive (STI) and LTI potential)



The following diagram illustrates how the Group's executive remuneration strategy aligns with business objectives and links executive remuneration to company performance and shareholder returns.

Diagram A: Remuneration components and strategic objectives

| Component | Performance measure | Strategic objective/performance link |
|--|--|---|
| FIXED ANNUAL REMUNERATION Salary and other benefits, including superannuation | Rewards KMP for effective performance of their roles and behaviour in accordance with the Group's culture and values. | Remuneration set to attract, motivate and retain executive talent. Considerations: <ul style="list-style-type: none"> - Experience, skills and capabilities - Role and responsibilities - Individual and business performance - Internal and external market comparisons, with reference to global and local market influences - Revenue used as primary factor when scoping KMP positions, as the Board believes this provides the greatest correlation to market value of KMP |
| + | | |
| SHORT-TERM INCENTIVE 75% cash and 25% equity for targeted and above target performance | Gateway: - Achievement of Adjusted EBITDAI (Global Group EBITDA) minimum performance | Focuses executives on the Group's critical annual performance metrics and rewards for achieving or exceeding performance targets. Ensures minimum company financial performance is achieved before any STI is payable. |
| | Group financial results (applies to all KMP): - Global Group EBITDA | Rewards performance at Group level. EBITDA was chosen primarily because it reflects overall profitability and improvements in EBITDA should drive share price over time. |
| | Brand/Region financial results: - Brand or Regional EBITDA (applies to brand and regional executives) - Inventory turn/working capital (applies to CFO and regional executives) | Rewards EBITDA contributions at the Brand and Regional level. Working capital and inventory turn focuses regional executives on short-term financial health and operating efficiencies, as well as appropriate levels of inventory. |
| | Non-financial results: - Includes employee engagement, and agreed key management objectives (applies to all but CEO) | Focuses leadership on the execution of strategic initiatives. |
| + | | |

Remuneration Report (continued)

4.1 Remuneration strategy (continued)

| Component | Performance measure | Strategic objective/performance link |
|---|---|--|
| LONG-TERM INCENTIVE (LTI) Equity | Each year, prior to awards being granted, the HR and Remuneration Committee considers the market environment, the Group's business strategy, performance expectations and shareholder expectations and sets the performance vesting conditions. | Focuses executives on the long-term performance of the Group and rewards for sustainable business outcomes and value creation for shareholders. Serves as a retention incentive. |
| = | | |
| TOTAL REMUNERATION | Executive remuneration strategy provides a strong link between performance and reward by aligning remuneration with company performance and delivery of long-term value to shareholders. Attracts and retains executive talent in a highly competitive global market. | |

4.2 At-Risk Remuneration

| | Short-Term Incentive | Long-Term Incentive |
|------------------------------------|--|---|
| Performance Period | 1 year | 3 years |
| Instrument | Total award payable is split 75% cash and 25% deferred equity. | Performance rights or options. In the current year, the Group awarded options. Prior to the current year, the Group awarded performance rights. |
| Performance Conditions and Vesting | Achievement of minimum Global Group EBITDA performance gateway and assigned financial and non-financial performance objectives. See Table D for assigned objectives. Deferred equity is granted with two year time vesting and is forfeited if executive resigns before vest date. | Options: 100% of options will vest when the three year service requirement (time-vesting) is met. Once vested, options may be exercised by paying the stated exercise price. Vested options can be exercised during a six month exercise period following vesting, excluding any period during which trading is not allowed due to the Group's Security Trading Policy, up to a one year maximum exercise period. Unexercised options are forfeited. Performance rights: achievement of TSR performance relative to comparator group and pre-tax EPS performance. No performance rights vest if performance is below minimum threshold. Relative TSR minimum threshold is 50 th percentile and target performance is 75 th percentile of comparator group ¹ . 50% of performance rights vest if minimum performance threshold is met. 51% to 100% of performance rights vest if performance level is between minimum threshold and target performance levels. |
| Performance Assessment | The HR and Remuneration Committee reviews performance against the relevant performance conditions and makes a recommendation to the Board as to STI awards payable and LTI vesting. | |
| Amount that can be earned | Award determined based on percentage of Base Salary CEO: 100% (at target) plus 100% (stretch) Global Brand Billabong President: 80% (at target) plus 40% (stretch) Outgoing CFO: 69% (at target) plus 40% (stretch) Incoming CFO and General Managers: 60% (at target) plus 40% (stretch) Sr. VP Operations: 50% (at target). Will be eligible for 20% (stretch) from 1 July 2017. | |
| | Level of Performance | Percentage of target STI payable |
| | Below 90% threshold | 0% |
| | 90% to 100% of target | 25% to 100% |
| | Stretch: 101% to 120% of target | 101% to maximum stretch opportunity |
| Change of Control | If a change of control occurs prior to the vesting of an award, then the Board may determine in its absolute discretion whether some or all of a participant's unvested award vests, lapses or is forfeited or remains subject to the applicable conditions and/or performance period; or becomes subject to substitute or varied conditions and/or performance period. | |
| Clawback | In the event of fraud, dishonesty or material misstatement of financial statements, the Board may make a determination, including lapsing unvested options or rights, or 'clawing back' shares allocated upon vesting (and in the case of options, valid exercise) to ensure that no unfair benefit is obtained by a participant; or reconsider the level of satisfaction of the applicable vesting conditions and reinstate and vest any options or rights that may have lapsed to the extent that the Board determines appropriate in the circumstances. | |

¹ Comparator Group for Performance Rights disclosed in prior years Financial Reports.

Remuneration Report (continued)

4.3 Remuneration outcomes

Summary - Remuneration outcomes for current Executive Key Management Personnel

Table A sets out the remuneration outcomes received by the Group's current KMP during the year, and the value of any STI equity or LTI that vested during the year. These amounts are different from the statutory remuneration expense disclosed in Table B. The Board considers the information about remuneration outcomes in Table A to be relevant for users because the statutory remuneration expense includes accounting charges for long-term incentives that may or may not be received in future years. See Table B for the differences.

Each KMP's base salary is disclosed in local currency in Table F.

A sign-on incentive in the form of cash was granted to Kevin Meehan. Kevin received \$66,287 (US\$50,000) paid at the start of his employment and will receive an additional \$66,287 (US\$50,000) on or after 1 July 2018. A sign-on incentive in the form of an equity rights award was granted to Jim Howell on 19 June 2017. The rights will vest 50% on 19 June 2018 and 50% on 19 June 2019. In both cases, the Board agreed to grant the sign-on incentives to offset the loss of an imminent short-term incentive payment or unvested long-term equity awards with their respective employers at the time they were offered employment with the Group. The Board recognises that sign-on incentives are not best practice in Australia, but felt they were necessary to attract these candidates to the Group, particularly in the competitive USA employment market and challenging retail industry. In addition, issuing the sign-on in the form of equity to Jim serves as a retention incentive and focuses him on value creation for shareholders.

Table A: Remuneration outcomes for the current year (non-statutory)

| 2017 | Neil Fiske ¹ | Paul Burdekin | Jim Howell ^{1,2} | Kevin Meehan ^{1,3} | Peter Myers ⁴ | Shannan North ¹ | Jean-Louis Rodrigues ¹ | Michael Yerkes ^{1,5} |
|------------------------------------|-------------------------|----------------|---------------------------|-----------------------------|--------------------------|----------------------------|-----------------------------------|-------------------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Cash Salary | 1,253,482 | 450,000 | 34,524 | 100,845 | 687,260 | 835,655 | 397,456 | 206,270 |
| Cash sign-on incentive | --- | --- | --- | 66,287 | --- | --- | --- | --- |
| Short-term incentive-earned cash | --- | --- | --- | --- | --- | 202,730 | --- | --- |
| Short-term incentive-vested equity | --- | --- | --- | --- | --- | 27,036 | 19,058 | --- |
| Long service leave | --- | 19,682 | --- | --- | --- | --- | --- | --- |
| Non-monetary benefits | 41,467 | 10,769 | --- | 2,720 | 6,769 | 39,600 | 27,573 | 8,878 |
| Superannuation | --- | 19,616 | --- | --- | 19,616 | 19,616 | --- | --- |
| Long-term incentive-vested equity | --- | --- | --- | --- | --- | --- | --- | --- |
| Total remuneration realised | 1,294,949 | 500,067 | 34,524 | 169,852 | 713,645 | 1,124,637 | 444,087 | 215,148 |

¹ Remuneration impacted by exchange rate fluctuations.

² Commenced employment 12 June 2017. Salary represents partial year.

³ Commenced employment 18 April 2017. Salary represents partial year.

⁴ Ceased performing his KMP role from 12 June 2017. Salary represents partial year.

⁵ Commenced KMP role 10 January 2017. Salary represents partial year.

4.4 Statutory remuneration outcomes

Table B sets out statutory remuneration for the KMP. Amounts in the share based payments columns represent accounting expenses and not vested awards.

Non-monetary benefits for Neil Fiske and Shannan North include tax preparation assistance, health cover, clothing allowance, spouse/family travel, and in relation to the financial year ending 30 June 2016, a one-time tax gross-up on certain benefits. Eligibility for a tax gross-up ceased in the current year. Non-monetary benefits for other KMP may include clothing allowance, vehicle allowance or vehicle lease value, health and welfare insurance benefits and tax preparation assistance. Non-monetary benefits for Jim Howell will also include a tax equalisation of USA/Australian taxes and relocation assistance with a one-time tax gross-up.

The fair value of options and rights granted under equity-settled share based arrangements are measured at grant date and spread over the vesting period via a charge to employee benefit expense in the income statement and corresponding increase in equity. No expense is recognised for awards that do not ultimately vest due to a performance condition not being met. The expense is recognised in full if the awards do not vest (or are not exercised) due to a market condition not being met.

Remuneration Report (continued)

4.4 Statutory remuneration outcomes (continued)

Table B: Statutory remuneration comparison

| | Neil Fiske ¹ | Paul Burdekin | Jim Howell ^{1,2} | Ed Leasure ³ | Kevin Meehan ^{1,4} | Peter Myers ⁵ | Shannan North ¹ | Jean-Louis Rodrigues ¹ | Michael Yerkes ^{1,6} | Total for all executives |
|---|-------------------------|---------------|---------------------------|-------------------------|-----------------------------|--------------------------|----------------------------|-----------------------------------|-------------------------------|--------------------------|
| Cash salary | | | | | | | | | | |
| 2017 \$ | 1,157,060 | 415,385 | 31,868 | --- | 93,088 | 634,394 | 771,373 | 359,239 | 190,403 | 3,652,810 |
| 2016 \$ | 1,197,238 | 415,385 | --- | 256,334 | --- | 669,231 | 798,159 | 378,726 | --- | 3,715,073 |
| Non-monetary benefit | | | | | | | | | | |
| 2017 \$ | 41,467 | 10,769 | --- | --- | 2,720 | 6,769 | 39,600 | 27,573 | 8,878 | 137,776 |
| 2016 \$ | 83,515 | 9,869 | --- | 11,445 | --- | 2,709 | 141,201 | 29,069 | --- | 277,808 |
| Sign-on Cash | | | | | | | | | | |
| 2017 \$ | --- | --- | --- | --- | 77,315 | --- | --- | --- | --- | 77,315 |
| 2016 \$ | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Annual and long service leave | | | | | | | | | | |
| 2017 \$ | 96,422 | 54,297 | 2,656 | --- | 7,757 | 52,866 | 64,281 | 38,217 | 15,867 | 332,363 |
| 2016 \$ | 99,770 | 54,740 | --- | 21,361 | --- | 55,769 | 66,513 | 40,290 | --- | 338,443 |
| Superannuation benefit | | | | | | | | | | |
| 2017 \$ | --- | 19,616 | --- | --- | --- | 19,616 | 19,616 | --- | --- | 58,848 |
| 2016 \$ | --- | 19,308 | --- | --- | --- | 19,308 | 19,308 | --- | --- | 57,924 |
| Termination benefit | | | | | | | | | | |
| 2017 \$ | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2016 \$ | --- | --- | --- | 2,621 | --- | --- | --- | --- | --- | 2,621 |
| Sign-on Equity | | | | | | | | | | |
| 2017 \$ | --- | --- | 12,900 | --- | --- | --- | --- | --- | --- | 12,900 |
| 2016 \$ | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Cash STI | | | | | | | | | | |
| 2017 \$ | --- | --- | --- | --- | --- | --- | 202,730 | --- | --- | 202,730 |
| 2016 \$ | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Deferred STI – equity | | | | | | | | | | |
| 2017 \$ | --- | --- | --- | --- | --- | --- | 35,028 | 19,756 | --- | 54,784 |
| 2016 \$ | --- | --- | --- | --- | --- | --- | 32,086 | 29,944 | --- | 62,030 |
| Share based payment – rights and options | | | | | | | | | | |
| 2017 \$ | 292,567 | 22,394 | --- | --- | --- | 48,075 | 90,100 | 24,197 | 9,541 | 486,874 |
| 2016 \$ | 369,102 | 44,765 | --- | (19,595) | --- | 62,187 | 130,046 | 30,074 | --- | 616,579 |
| Total remuneration | | | | | | | | | | |
| 2017 \$ | 1,587,516 | 522,461 | 47,424 | --- | 180,880 | 761,720 | 1,222,728 | 468,982 | 224,689 | 5,016,400 |
| 2016 \$ | 1,749,625 | 544,067 | --- | 272,166 | --- | 809,204 | 1,187,313 | 508,103 | --- | 5,070,478 |
| Variable Remuneration | | | | | | | | | | |
| 2017 % | 18% | 4% | 27% | --- | 0% | 6% | 27% | 9% | 4% | 15% |
| 2016 % | 21% | 8% | --- | n/a | --- | 8% | 14% | 12% | --- | 13% |

¹ Remuneration impacted by exchange rate fluctuations. The EUR/AUD exchange rate fluctuation decreases the 2017 remuneration for Jean-Louis Rodrigues by 5% when comparing 2016 and 2017. The USD/AUD exchange rate fluctuation decreases the 2017 remuneration for Neil Fiske and Shannan North by 3.4% when comparing 2016 and 2017.

² Commenced employment 12 June 2017.

³ Ceased performing his role on 29 January 2016. Termination benefits include a lump sum payment to assist with post-employment medical benefits.

⁴ Commenced employment 18 April 2017.

⁵ Ceased performing his KMP role from 12 June 2017. Cash salary and share based payments reflects period in KMP role only.

⁶ Commenced KMP role 10 January 2017.

Remuneration Report (continued)

4.5 Short-Term Incentive awards and outcomes

Table C outlines the terms and conditions of the equity short-term sign-on incentives issued to Jim Howell.

Table C: Equity sign-on incentive

| Financial year approved by Board | Date granted | Vesting Condition | Vesting performance period | Vesting subject to performance testing | Status |
|----------------------------------|--------------|--------------------|---------------------------------|--|-------------|
| Performance Rights | | | | | |
| 30 June 2017 | 19 June 2017 | Continuous service | 19 June 2017 until 18 June 2018 | 19 June 2018 | In progress |
| | | | 19 June 2017 until 18 June 2019 | 19 June 2019 | |

Summary of executive performance measures and outcomes

In respect of performance for the current year, the Group achieved its minimum Global Group EBITDA performance gateway. As a result, KMP that achieved or partially achieved their primary EBITDA target were eligible for an STI payment.

Table D shows the performance measures (KPIs) set for KMP and achievement for the current year, including the value of the short-term incentive earned (cash and equity) as a percentage of the total short term incentive potential (target and stretch).

Table D: KPIs for KMP for the current year

| | Total Opportunity \$ | Summary of performance measures / KPIs | Weighting | Achievement ² | Paid (as % of maximum STI) | Forfeited (as % of maximum STI) |
|--------------------------|----------------------|---|-----------|--------------------------|----------------------------|---------------------------------|
| Neil Fiske | 2,506,964 | - Global Group EBITDA ¹ | 100% | Not Achieved | 0% | 100% |
| Paul Burdekin | 450,000 | - Global Group EBITDA | 20% | Not Achieved | 0% | 100% |
| | | - Asia Pacific EBITDA ¹ | 50% | Not Achieved | | |
| | | - Asia Pacific Inventory Turn and Working Capital | 20% | Partially Achieved | | |
| | | - Employee Engagement | 10% | Partially Achieved | | |
| Jim Howell | n/a | - Not eligible for current year | | | | |
| Kevin Meehan | n/a | - Not eligible for current year | | | | |
| Peter Myers ³ | 748,876 | - Global Group EBITDA ¹ | 60% | Not Achieved | 0% | 100% |
| | | - Global Inventory Turn and Working Capital | 20% | Partially Achieved | | |
| | | - Functional Achievement (Standardised Reporting, Department Restructure) | 10% | Partially Achieved | | |
| | | - Employee Engagement | 10% | Partially Achieved | | |
| Shannan North | 1,002,786 | - Global Group EBITDA | 20% | Not Achieved | 27% | 73% |
| | | - Global Brand Billabong EBITDA ¹ | 60% | Partially Achieved | | |
| | | - North America Retail EBITDA ¹ | 10% | Achieved | | |
| | | - Employee Engagement | 10% | Partially Achieved | | |
| Jean-Louis Rodrigues | 397,456 | - Global Group EBITDA | 20% | Not Achieved | 0% | 100% |
| | | - Europe EBITDA ¹ | 50% | Not Achieved | | |
| | | - Europe Inventory Turn and Working Capital | 20% | Partially Achieved | | |
| | | - Employee Engagement | 10% | Partially Achieved | | |
| Michael Yerkes | 103,135 ⁴ | - Global Group EBITDA ¹ | 30% | Not Achieved | 0% | 100% |
| | | - Pipeline Implementation | 30% | Achieved | | |
| | | - Distribution Centre Restructure & Rationalisation | 30% | Achieved | | |
| | | - Customer Service and DTC/IT Consolidation | 10% | Partially Achieved | | |

¹ Performance less than the minimum threshold of 90% on the primary EBITDA target will typically result in no STI payable, even if other performance measures/KPIs are achieved.

² Partially achieved represents performance between the threshold (90% of target) and target.

³ Ceased performing his KMP role from 12 June 2017, but remains employed as a Financial Project Consultant role. Per the terms of his Financial Project Consultant agreement, he remains eligible for an FY17 STI payout related to his time in the CFO role. STI opportunity represents partial year.

⁴ Commenced KMP role 10 January 2017. STI opportunity represents partial year.

Remuneration Report (continued)

4.6 Long-Term Incentive awards and outcomes

Table E: Performance periods for long-term incentives

| Financial year approved by Board | Date granted | Vesting Condition ¹ | Vesting performance period | Vesting subject to performance testing | Status |
|----------------------------------|------------------|--------------------------------|---|--|--------------|
| Performance Rights | | | | | |
| 30 June 2014 | 18 December 2013 | EPS portion | Financial year ended 30 June 2016 | July 2016 | Did not vest |
| | | Relative TSR portion | 1 January 2014 until 30 September 2016 | October 2016 | Did not vest |
| 30 June 2015 | 2 December 2014 | EPS portion | Financial year ended 30 June 2017 | September 2017 | In progress |
| | | Relative TSR portion | 1 July 2014 until 30 June 2017 | | |
| 30 June 2016 | 15 December 2015 | EPS portion | Financial year ended 30 June 2018 | September 2018 | In progress |
| | | Relative TSR portion | 1 July 2015 until 30 June 2018 | | |
| Options | | | | | |
| 30 June 2017 | 30 November 2016 | Continuous service | 30 November 2016 until 29 November 2019 | 30 November 2019 | In progress |

¹ Executives can neither vote nor receive dividends in respect of unvested grants.

4.7 Long-Term Incentive structure

In the current year, KMP were issued 30% of total LTI award in the form of market priced options and 70% in the form of premium priced options. The five day volume weighted average price (VWAP) at grant date was used to determine the number of options per grant and the exercise prices. The fair value of options is determined using the Black-Scholes option pricing model.

| | 2017 grant date value | 2017 fair value | 2017 exercise price |
|------------------------|----------------------------------|-----------------|---------------------|
| Market priced options | 5 day VWAP at grant date | \$0.42 | \$1.23 |
| Premium priced options | 150% of 5 day VWAP at grant date | \$0.27 | \$1.85 |

4.8 Summary of executive contracts

Executive contracts set out remuneration details and other terms of employment for each individual executive. The contracts provide for base salary inclusive of superannuation, performance-related bonuses, other benefits including health insurance, car allowances and clothing allowances, and participation, where eligible, in long-term incentive plans.

The key provisions of the KMP contracts relating to terms of employment and notice periods are set out in Table F. Contractual terms vary due to the timing of contracts, individual negotiations and different local market practices. Given that the executive contracts are governed by laws in different jurisdictions (California, Australia and France), restraint of trade terms vary and in the case of GM Europe, Jean-Louis Rodrigues, there is no restraint.

Table F: Executive contracts summary

| | Date of contract | Term of contract | Base Salary in local currency | Notice period required to be given by the Group | Maximum contractual payment for termination by the Group without cause |
|-----------------------------|------------------|------------------|-------------------------------|---|--|
| Neil Fiske | 1 January 2015 | On-going | USD 945,000 | n/a ² | 12 months ¹ |
| Paul Burdekin | 13 January 2015 | On-going | AUD 450,000 | 9 months | Payment in lieu of notice |
| Jim Howell | 12 June 2017 | On-going | USD 500,000 | n/a ² | 12 months ¹ |
| Kevin Meehan ³ | 18 April 2017 | On-going | USD 375,000 | n/a ² | 12 months ¹ |
| Peter Myers ⁴ | 11 January 2013 | On-going | AUD 725,000 | 6 months | Payment in lieu of notice |
| Shannan North | 18 August 2014 | On-going | USD 630,000 | n/a ² | 12 months ¹ |
| Jean-Louis Rodrigues | 17 June 2015 | On-going | EUR 275,000 | 6 months | Payment in lieu of notice ¹ |
| Michael Yerkes ⁵ | 1 July 2016 | On-going | USD 330,000 | n/a ² | 6 months |

¹ Payment will be reduced if it would exceed the 12 month average base salary termination benefit cap under Australian law.

² Consistent with at will employment provisions in the USA, although the Group may choose to give notice to an employee, no notice period is required to be given by the Group if the Group triggers termination of an employee with or without cause.

³ Base salary increases to US\$400,000 1 July 2018 if FY18 Global RVCA EBITDA budget is achieved.

⁴ Ceased performing KMP role from 12 June 2017. In the role of Financial Project Consultant, the following terms and conditions apply to Peter's employment: each party is required to provide an 8 week notice period should they wish to terminate the agreement; an incentive payment will be made based on a retention period with the group and a separate milestone incentive payment will be made on completion of events.

⁵ Base salary increased to US\$380,000 1 July 2017 in recognition of increased responsibilities in current year.

Remuneration Report (continued)

5. Non-Executive Director remuneration

5.1 Approved fee pool

Non-Executive Director fees are determined within a maximum Directors' fee pool limit. Since 2010, the fee pool limit has been \$1,500,000. The fee pool is inclusive of superannuation. No director fees are paid to Executive Director, Neil Fiske. Total Non-Executive Director remuneration paid during the current year is outlined in Table H.

5.2 Approach to setting Non-Executive Director remuneration

Non-Executive Directors receive fixed remuneration in the form of a base fee plus a fee for chairing of Board committees. Non-Executive Directors do not receive variable remuneration or other performance-related incentives such as equity-based awards or retirement benefits other than statutory superannuation payments.

Fees for Non-Executive Directors were not increased for the current year and will not be increased for the financial year ending 30 June 2018. Non-Executive Directors each continue to receive an amount of \$5,000 per annum to recognise the additional time required for international travel. Beginning 17 February 2017, the position of Chair of the IT/Omni-Channel working group received fees consistent with the position of Chair of the Board subcommittees due to the amount of time required to fulfil the duties of the position.

For the financial years ended 30 June 2016 and 30 June 2017 the annual Non-Executive Directors fees were as follows:

Table G: Non-Executive Director Remuneration

| Non-Executive Director fees ¹ | 2017 \$ | 2016 \$ |
|---|------------|------------|
| Board Chair fee | 238,188 | 238,188 |
| Director fee | 98,275 | 98,275 |
| Committee Chair fee (Audit and Risk, HR and Remuneration, Nominations and Class Action ²) | 25,000 | 25,000 |
| Working group Chair fee (IT/Omni) | 25,000 | --- |

¹ Excludes superannuation.

² Committee ceased 17 July 2016.

5.3 Non-Executive Director remuneration

Table H sets out the Non-Executive Director fees paid in the financial years ended 30 June 2016 and 30 June 2017.

Table H: Non-Executive fees paid

| Name | Year | Fees | Non-monetary benefit ¹ | Superannuation | Total remuneration |
|----------------------------|------|---------|-----------------------------------|----------------|--------------------|
| | | \$ | \$ | \$ | \$ |
| Ian Pollard | 2017 | 238,188 | 3,977 | 19,616 | 261,781 |
| | 2016 | 238,188 | 3,646 | 19,308 | 261,142 |
| Kim Anderson ² | 2017 | 78,077 | 637 | 7,417 | 86,131 |
| | 2016 | --- | --- | --- | --- |
| Gordon Merchant | 2017 | 98,275 | 4,416 | 9,336 | 112,027 |
| | 2016 | 98,275 | 4,392 | 9,336 | 112,003 |
| Howard Mowlem | 2017 | 131,220 | 1,550 | 12,478 | 145,248 |
| | 2016 | 123,275 | 3,074 | 11,711 | 138,060 |
| Jason Mozingo ³ | 2017 | --- | 350 | --- | 350 |
| | 2016 | --- | --- | --- | --- |
| Sally Pitkin ⁴ | 2017 | 16,363 | 1,828 | 1,554 | 19,745 |
| | 2016 | 148,275 | 4,375 | 14,086 | 166,736 |
| Matt Wilson ⁵ | 2017 | --- | --- | --- | --- |
| | 2016 | 18,521 | --- | --- | 18,521 |
| Total | 2017 | 562,123 | 12,758 | 50,401 | 625,282 |
| | 2016 | 626,534 | 15,487 | 54,441 | 696,462 |

¹ Non-monetary benefit includes a clothing allowance, reported as retail value.

² Appointed 9 December 2016.

³ Resigned effective 30 June 2017. Beginning with the start of the financial year ending 30 June 2016, Mr. Mozingo waived his fees, consistent with employment practices at Centerbridge Partners, L.P.

⁴ Resigned effective 15 August 2016.

⁵ Resigned effective 7 September 2015.

Remuneration Report (continued)

6. Other statutory disclosures

Table I shows the movements in options, performance rights and deferred equity rights during the current year for KMP.

The maximum total value of grant yet to vest as at 30 June 2017 for the performance rights awards is calculated as the grant date value based on the five day volume weighted average price at grant date of the performance rights and assuming 100% of the award vests. The maximum total value of grant yet to vest as at 30 June 2017 for the options awards is not applicable. The maximum total value of grant yet to vest as at 30 June 2017 for the short-term deferred equity awards is stated as the value at the time of deferral.

Table I: KMP Rights/Options holdings

| 2017 ³ | Opening Balance | Granted during the year | Exercised during the year | Lapsed/ cancelled during the year | Closing Balance | Vested during the year | Maximum total value of grant yet to vest |
|---------------------------------------|----------------------|-------------------------------|---------------------------------|--|--------------------|------------------------------|---|
| | Number | Number | Number | Number | Number | Number | \$ |
| Neil Fiske | | | | | | | |
| LTI Awards | | | | | | | |
| -2017 Market Priced Options | --- | 771,330 | --- | --- | 771,330 | --- | --- |
| -2017 Premium Priced Options | --- | 1,799,770 | --- | --- | 1,799,770 | --- | --- |
| -2016 Performance Rights | 679,255 | --- | --- | --- | 679,255 | --- | 1,664,175 |
| -2015 Performance Rights | 381,930 | --- | --- | --- | 381,930 | --- | 1,250,057 |
| -2014 Performance Rights | 448,486 | --- | --- | (448,486) | --- | --- | --- |
| Paul Burdekin | | | | | | | |
| LTI Awards | | | | | | | |
| -2017 Market Priced Options | --- | 67,020 | --- | --- | 67,020 | --- | --- |
| -2017 Premium Priced Options | --- | 156,380 | --- | --- | 156,380 | --- | --- |
| -2016 Performance Rights | 58,646 | --- | --- | --- | 58,646 | --- | 143,683 |
| -2015 Performance Rights | 41,248 | --- | --- | --- | 41,248 | --- | 135,005 |
| Jim Howell | | | | | | | |
| Sign-on Equity Awards ² | | | | | | | |
| -Year 1 | --- | 324,284 | --- | --- | 324,284 | --- | 285,370 |
| -Year 2 | --- | 324,284 | --- | --- | 324,284 | --- | 285,370 |
| Peter Myers¹ | | | | | | | |
| LTI Awards | | | | | | | |
| -2017 Market Priced Options | --- | 125,940 | --- | --- | 125,940 | --- | --- |
| -2017 Premium Priced Options | --- | 293,860 | --- | --- | 293,860 | --- | --- |
| -2016 Performance Rights | 110,232 | --- | --- | --- | 110,232 | --- | 270,068 |
| -2015 Performance Rights | 77,532 | --- | --- | --- | 77,532 | --- | 253,762 |
| -2014 Performance Rights | 117,422 | --- | --- | (117,422) | --- | --- | --- |
| Shannan North | | | | | | | |
| 2017 STI Deferred Equity ⁵ | | | | | | | |
| 2015 STI Deferred Equity | 11,926 | --- | --- | --- | 11,926 | --- | 37,633 |
| 2014 STI Deferred Equity | 21,364 | --- | (21,364) | --- | --- | 21,364 | --- |
| LTI Awards | | | | | | | |
| -2017 Market Priced Options | --- | 246,840 | --- | --- | 246,840 | --- | --- |
| -2017 Premium Priced Options | --- | 575,960 | --- | --- | 575,960 | --- | --- |
| -2016 Performance Rights | 217,362 | --- | --- | --- | 217,362 | --- | 532,537 |
| -2015 Performance Rights | 126,998 | --- | --- | --- | 126,998 | --- | 415,664 |
| -2014 Performance Rights | 97,178 | --- | --- | (97,178) | --- | --- | --- |
| Jean-Louis Rodrigues | | | | | | | |
| 2015 STI Deferred Equity | | | | | | | |
| 2014 STI Deferred Equity | 14,889 | --- | (14,889) | --- | --- | 14,889 | --- |
| LTI Awards | | | | | | | |
| -2017 Market Priced Options | --- | 59,340 | --- | --- | 59,340 | --- | --- |
| -2017 Premium Priced Options | --- | 138,460 | --- | --- | 138,460 | --- | --- |
| -2016 Performance Rights | 52,928 | --- | --- | --- | 52,928 | --- | 129,674 |
| -2015 Performance Rights | 37,198 | --- | --- | --- | 37,198 | --- | 121,749 |
| -2014 Performance Rights | 55,128 | --- | --- | (55,128) | --- | --- | --- |
| Michael Yerkes | | | | | | | |
| LTI Awards | | | | | | | |
| -2017 Market Priced Options | 64,650 ⁴ | --- | --- | --- | 64,650 | --- | --- |
| -2017 Premium Priced Options | 150,850 ⁴ | --- | --- | --- | 150,850 | --- | --- |
| -Performance Rights | --- | --- | --- | --- | --- | --- | --- |

¹ Ceased performing his KMP role from 12 June 2017. Per the terms of his Financial Project Consultant agreement, previously granted LTI awards continue to remain on foot subject to the same terms and conditions as other executives so long as certain criteria are met, including continued employment until 31 December 2017.

² Sign-on equity award in the form of rights. The 5 day volume weighted average price ending 19 June 2017 was used to determine the number of rights.

³ Kevin Meehan has not been included as he does not yet hold any rights/options.

⁴ Opening balance for Michael Yerkes represents options awarded prior to start of KMP role.

⁵ Shares for the deferred portion of the 2017 STI will be granted on 1 September 2017. The 5 day volume weighted average price ending 1 September 2017 will be used to determine the number of rights.

Remuneration Report (continued)

6. Other statutory disclosures (continued)

Relationship between remuneration and company performance

Company performance has increased by a compound rate of 22.5% over the last five years. The Group's profit from ordinary activities after income tax has increased from a loss of \$275,649,000 in 2012 to a loss of \$77,129,000 in 2017 including significant items. Shareholder wealth has declined at a compound rate of 54.7% per annum. Total KMP remuneration decreased over the same period at a compound rate of 7.5% per annum. Excluding termination benefits paid in 2012, total KMP remuneration decreased at a compound rate of 0.6% per annum.

Equity instrument disclosures relating to KMP

The numbers of ordinary shares in the Group held during the financial year by each Director of Billabong International Limited and other key management personnel of the Group, including their personally related entities, are set out in Table J.

Table J: 2017 Share holdings

| 2017 | Balance at the start of the year | Received on the exercise of rights holdings | Other changes during the year | Balance at the end of the year |
|---|----------------------------------|---|-------------------------------|--------------------------------|
| | Number | Number | Number | Number |
| <i>Directors of Billabong International Limited</i> | | | | |
| Ian Pollard | 30,596 | --- | 20,000 | 50,596 |
| Neil Fiske | 491,072 | --- | --- | 491,072 |
| Kim Anderson ¹ | --- | --- | --- | --- |
| Gordon Merchant | 24,386,908 | --- | --- | 24,386,908 |
| Howard Mowlem | 27,500 | --- | --- | 27,500 |
| Jason Mozingo ² | --- | --- | --- | --- |
| Sally Pitkin ³ | 19,250 | --- | (19,250) | --- |
| Amar Doshi ⁴ | --- | --- | --- | --- |
| <i>Other key management personnel of the Group</i> | | | | |
| Paul Burdekin | 18,515 | --- | --- | 18,515 |
| Jim Howell ⁵ | --- | --- | --- | --- |
| Kevin Meehan ⁶ | --- | --- | --- | --- |
| Peter Myers ⁷ | 9,565 | --- | (9,565) | --- |
| Shannan North | 41,979 | 21,364 | (21,364) | 41,979 |
| Jean-Louis Rodrigues | 10,426 | 14,889 | (3,722) | 21,593 |
| Michael Yerkes ⁸ | --- | --- | --- | --- |

¹ Appointed 9 December 2016.

² Resigned on 30 June 2017.

³ Resigned on 15 August 2016.

⁴ Resigned on 4 August 2016.

⁵ Commenced employment from 12 June 2017.

⁶ Commenced employment from 18 April 2017.

⁷ Ceased performing his KMP role from 12 June 2017.

⁸ Commenced KMP role from 10 January 2017.

Other transactions with Directors and other key management personnel

Kim Anderson serves as a Non-Executive Director of WPP AUNZ. The Group has an ongoing agreement with Cannings, which is a wholly owned company of WPP AUNZ.

Shares under option

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

| | | Number | Grant date | Issue price of shares | Expiry date |
|--------------------------------------|-------|-----------|------------------|-----------------------|------------------|
| Refinancing proposal - Altamont | BBGAO | 8,451,958 | 16 July 2013 | \$2.50 | 16 July 2020 |
| Refinancing proposal - C/O Placement | BBGAQ | 5,916,371 | 3 December 2014 | \$2.50 | 3 December 2020 |
| Executive Option Plan | BBGAS | 240,000 | 31 January 2014 | \$3.00 | 31 January 2024 |
| Market Priced Options | BBGAU | 3,290,550 | 30 November 2016 | \$1.23 | 30 November 2020 |
| Premium Priced Options | BBGAW | 5,331,950 | 30 November 2016 | \$1.85 | 30 November 2020 |

Insurance of officers

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

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

Non-audit services

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

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

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

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

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

| | Consolidated | |
|--|--------------|---------|
| | 2017 | 2016 |
| | \$ | \$ |
| PwC Australia | | |
| International tax consulting together with separate tax advice on acquisitions and disposals | 108,456 | 193,354 |
| Due diligence services | 375,000 | --- |
| Network firms of PwC Australia | | |
| International tax consulting together with separate tax advice on acquisitions and disposals | 90,118 | 192,908 |
| Total remuneration for non-audit services | 573,574 | 386,262 |

Amounts paid or payable by the consolidated entity for audit and non-statutory audit services are disclosed in note 33 to the financial statements.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 29.

Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Corporate Governance Statement

The Board of Directors is responsible to shareholders for the performance of the Group and believes that high standards of corporate governance underpin the Group's objective of maximising returns to shareholders. The Board is committed to a high level of governance and endeavours to foster a culture that rewards ethical standards and corporate integrity. The Group has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The 2017 corporate governance statement is dated as at 30 June 2017 and reflects the corporate governance practices in place throughout the 2017 financial year. The 2017 corporate governance statement was approved by the Board on 29 August 2017. A description of the Group's current corporate governance practices is set out in the Group's corporate governance statement which can be viewed at www.billabongbiz.com.

Auditor

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

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



Ian Pollard
Chair
Gold Coast, 30 August 2017



Auditor's Independence Declaration

As lead auditor for the audit of Billabong International Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

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

K. Stubbins

Kristin Stubbins
Partner
PricewaterhouseCoopers

Sydney
30 August 2017

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**Billabong
International
Limited**

ABN 17 084 923 946



**FINANCIAL REPORT
30 JUNE 2017**

Introduction

This financial report covers the consolidated entity consisting of Billabong International Limited and its subsidiaries. The financial report is presented in Australian currency. Billabong International Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Billabong International Limited
1 Billabong Place
Burleigh Heads QLD 4220

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' report on pages 2-28, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 30 August 2017. The Company has the power to amend and reissue the financial report.

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

Information is included in the financial report only to the extent it is considered material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- The dollar amount is significant in size (quantitative factor)
- The dollar amount is significant by nature (qualitative factor)
- The Group's results cannot be understood without the specific disclosure (qualitative factor)
- It is critical to allow a user to understand the impact of significant changes in the Group's business during the period such as business acquisitions (qualitative factor)
- It relates to an aspect of the Group's operations that is important to its future performance.

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Consolidated income statement

For the year ended 30 June 2017

| | Notes | 2017 \$'000 | 2016 \$'000 |
|--|-------|----------------|----------------|
| Revenue from continuing operations | 2 | 979,452 | 1,075,634 |
| Cost of goods sold | 3 | (479,255) | (533,922) |
| Other income | 2 | 3,480 | 8,653 |
| Selling, general and administrative expenses | 3 | (364,123) | (410,243) |
| Other expenses | 3 | (222,392) | (120,357) |
| Finance costs | 3 | (37,954) | (42,347) |
| Loss before income tax | | (120,792) | (22,582) |
| Income tax expense | 4 | (9,692) | (7,844) |
| Loss from continuing operations | | (130,484) | (30,426) |
| Profit from discontinued operations after income tax | 7 | 53,355 | 6,687 |
| Loss for the year | | (77,129) | (23,739) |
| Loss for the year attributable to the members of Billabong International Limited | | (77,129) | (23,739) |
| Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company | | Cents | Cents |
| Basic earnings per share | 6 | (66.0) | (15.4) |
| Diluted earnings per share | 6 | (66.0) | (15.4) |
| Earnings per share for loss attributable to the ordinary equity holders of the Company | | | |
| Basic earnings per share | 6 | (39.0) | (12.0) |
| Diluted earnings per share | 6 | (39.0) | (12.0) |

Consolidated statement of comprehensive income

For the year ended 30 June 2017

| | Notes | 2017 \$'000 | 2016 \$'000 |
|--|-------|----------------|----------------|
| Loss for the year | | (77,129) | (23,739) |
| Other comprehensive expense | | | |
| <i>Items that may be reclassified to profit or loss</i> | | | |
| Changes in the fair value of cash flow hedges, net of tax | 21(b) | 2,223 | (4,717) |
| Exchange differences on translation of foreign operations | 21(b) | (9,335) | 7,955 |
| Net investment hedge, net of tax | 21(b) | 6,051 | (3,727) |
| Other comprehensive expense for the year, net of tax | | (1,061) | (489) |
| Total comprehensive expense for the year | | (78,190) | (24,228) |
| Total comprehensive expense for the year attributable to members of Billabong International Limited | | (78,190) | (24,228) |
| Total comprehensive (expense)/income for the year attributable to members of Billabong International Limited arises from: | | | |
| Continuing operations | | (131,545) | (30,915) |
| Discontinued operations | | 53,355 | 6,687 |
| | | (78,190) | (24,228) |

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

Consolidated balance sheet

As at 30 June 2017

| | Notes | 2017 \$'000 | Restated 2016 \$'000 | Restated 2015 \$'000 |
|---|--------|----------------|----------------------------|----------------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 11 | 71,739 | 89,171 | 153,334 |
| Trade and other receivables | 8 | 169,325 | 171,644 | 164,504 |
| Inventories * | 9 | 162,311 | 182,604 | 186,330 |
| Current tax receivables | 4 | 28 | 1,499 | 1,934 |
| Other | 17, 22 | 18,315 | 16,584 | 16,856 |
| Total current assets | | 421,718 | 461,502 | 522,958 |
| Non-current assets | | | | |
| Receivables | 17 | 7,351 | 7,792 | 7,202 |
| Property, plant and equipment | 15 | 73,160 | 86,321 | 89,504 |
| Intangible assets | 16 | 57,918 | 165,035 | 161,534 |
| Deferred tax assets | 4 | 13,246 | 15,712 | 15,384 |
| Other | 17 | 4,731 | 4,934 | 6,603 |
| Total non-current assets | | 156,406 | 279,794 | 280,227 |
| Total assets | | 578,124 | 741,296 | 803,185 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Trade and other payables * | 10, 22 | 151,068 | 173,438 | 189,734 |
| Deferred payment | | --- | --- | 20,378 |
| Borrowings | 13 | 4,207 | 8,168 | 6,905 |
| Current tax liabilities | 4 | 5,054 | 3,629 | 4,115 |
| Provisions | 19 | 14,160 | 16,144 | 21,240 |
| Total current liabilities | | 174,489 | 201,379 | 242,372 |
| Non-current liabilities | | | | |
| Borrowings | 13 | 216,114 | 266,209 | 259,950 |
| Deferred tax liabilities | 4 | --- | --- | --- |
| Provisions | 19 | 4,874 | 11,577 | 15,823 |
| Other payables | 18 | 7,403 | 9,241 | 9,855 |
| Total non-current liabilities | | 228,391 | 287,027 | 285,628 |
| Total liabilities | | 402,880 | 488,406 | 528,000 |
| Net assets | | 175,244 | 252,890 | 275,185 |
| EQUITY | | | | |
| Contributed equity | 20 | 1,094,274 | 1,094,274 | 1,094,274 |
| Treasury shares | 21(a) | (20,302) | (20,431) | (20,959) |
| Option reserve | 21(b) | 12,484 | 12,069 | 10,664 |
| Other reserves | 21(b) | (106,808) | (105,747) | (105,258) |
| Retained losses * | 21(c) | (804,404) | (727,275) | (703,536) |
| Capital and reserves attributable to members of Billabong International Limited | | 175,244 | 252,890 | 275,185 |
| Total equity | | 175,244 | 252,890 | 275,185 |

* Refer to the working capital section (a) correction of prior period error on page 52.

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

Consolidated statement of changes in equity

For the year ended 30 June 2017

| | | Attributable to members of Billabong International Limited | | | |
|--|---------------------------------|---|--------------------------------|------------------------|--|
| Notes | Contributed equity \$'000 | Reserves \$'000 | Retained earnings \$'000 | Total equity \$'000 | |
| Balance at 1 July 2015 | 1,094,274 | (115,553) | (697,137) | 281,584 | |
| Adjustment on correction of error * | --- | --- | (6,399) | (6,399) | |
| Restated total equity at 1 July 2015 | 1,094,274 | (115,553) | (703,536) | 275,185 | |
| Loss for the year | --- | --- | (23,739) | (23,739) | |
| Other comprehensive expense | --- | (489) | --- | (489) | |
| Total comprehensive expense for the year | --- | (489) | (23,739) | (24,228) | |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Option reserve in respect of employee share plan | 21(b) --- | 1,615 | --- | 1,615 | |
| Deferred tax credit recognised directly in equity | 21(a) --- | 318 | --- | 318 | |
| | --- | 1,933 | --- | 1,933 | |
| Restated balance at 30 June 2016 | 1,094,274 | (114,109) | (727,275) | 252,890 | |
| Loss for the year | --- | --- | (77,129) | (77,129) | |
| Other comprehensive expense | --- | (1,061) | --- | (1,061) | |
| Total comprehensive expense for the year | --- | (1,061) | (77,129) | (78,190) | |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Option reserve in respect of employee share plan | 21(b) --- | 514 | --- | 514 | |
| Deferred tax credit recognised directly in equity | 21(a) --- | 30 | --- | 30 | |
| | --- | 544 | --- | 544 | |
| Balance at 30 June 2017 | 1,094,274 | (114,626) | (804,404) | 175,244 | |

* Refer to the working capital section (a) correction of prior period error on page 52.

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

Consolidated cash flow statement

For the year ended 30 June 2017

| | Notes | 2017 \$'000 | 2016 \$'000 |
|---|-------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of sales taxes) | | 1,085,053 | 1,173,210 |
| Payments to suppliers and employees (inclusive of sales taxes) | | (1,051,905) | (1,177,978) |
| | | 33,148 | (4,768) |
| Interest received | | 394 | 672 |
| Other revenue | | 6,854 | 12,989 |
| Finance costs | | (27,081) | (27,874) |
| Income taxes paid | | (4,123) | (3,122) |
| Net cash inflow/(outflow) from operating activities | 12 | 9,192 | (22,103) |
| Cash flows from investing activities | | | |
| Payments for deferred consideration | | (984) | (18,646) |
| Payments for property, plant and equipment | | (12,803) | (23,861) |
| Payments for finite life intangible assets | | (8,385) | (14,143) |
| Proceeds from sale of business, net of cash divested and transaction costs | 7 | 57,644 | --- |
| Proceeds from sale of immaterial operations, net of cash divested and transaction costs | | (1,520) | 16,143 |
| Proceeds from sale of property, plant and equipment | | 142 | 6,359 |
| Net cash inflow/(outflow) from investing activities | | 34,094 | (34,148) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 18,594 | 5,202 |
| Repayment of borrowings | | (76,322) | (16,585) |
| Net cash outflow from financing activities | | (57,728) | (11,383) |
| Net decrease in cash and cash equivalents | | (14,442) | (67,634) |
| Cash and cash equivalents at the beginning of the year | | 89,171 | 153,334 |
| Effects of exchange rate changes on cash and cash equivalents | | (2,990) | 3,471 |
| Cash and cash equivalents at the end of the year | 11 | 71,739 | 89,171 |

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

Group performance

Note 1. Segment information

Description of segments

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

The CEO currently considers the business principally from a geographic perspective and has identified three reportable segments being Asia Pacific, Americas and Europe. The CEO monitors the performance of these geographic segments separately from individual countries as each region operates in similar economic and seasonal environments. Whilst the CEO reviews some brand specific information it is ultimately the geographic segment perspective which is used in assessing performance. 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:

| Segment | This segment includes: |
|--------------|--|
| Asia Pacific | Australia, New Zealand, Japan, South Africa, Singapore and Indonesia |
| Americas | United States of America, Canada and Brazil |
| Europe | France, England, Spain, Germany and Czech Republic |

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

Segment earnings before interest, taxes, depreciation, amortisation and impairment (EBITDAI) excludes inter-company royalties and sourcing fees and includes an allocation of global overhead costs (which include corporate overhead, international advertising and promotion costs, central sourcing costs and foreign exchange movements).

(a) Segment information provided to the CEO

The segment information provided to the CEO for the reportable segments is as follows:

| 2017 | Asia Pacific \$'000 | Americas \$'000 | Europe \$'000 | Rest of the World \$'000 | Total \$'000 |
|---|------------------------|--------------------|------------------|-----------------------------|-----------------|
| Total from continuing and discontinued operations including significant items | | | | | |
| Sales to external customers | 392,943 | 432,905 | 174,828 | --- | 1,000,676 |
| Third party royalties | --- | --- | --- | 3,048 | 3,048 |
| Total segment revenue | 392,943 | 432,905 | 174,828 | 3,048 | 1,003,724 |
| EBITDAI | 30,466 | 47,983 | 17,764 | 3,048 | 99,261 |
| Less: depreciation and amortisation | | | | | (28,954) |
| Less: impairment expense | | | | | (106,450) |
| Less: net interest expense | | | | | (31,294) |
| Loss before income tax | | | | | (67,437) |
| Segment assets | 241,537 | 216,527 | 106,814 | --- | 564,878 |
| Unallocated assets: | | | | | |
| Deferred tax | | | | | 13,246 |
| Total assets | | | | | 578,124 |
| Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | 7,465 | 12,302 | 2,409 | --- | 22,176 |

Note 1. Segment information (continued)**(a) Segment information provided to the CEO (continued)**

| 2016 | Asia Pacific \$'000 | Americas \$'000 | Europe \$'000 | Rest of the World \$'000 | Total \$'000 |
|---|------------------------|--------------------|------------------|-----------------------------|-----------------|
| Total from continuing and discontinued operations including significant items | | | | | |
| Sales to external customers | 422,958 | 481,279 | 192,666 | --- | 1,096,903 |
| Third party royalties | --- | --- | --- | 3,526 | 3,526 |
| Total segment revenue | 422,958 | 481,279 | 192,666 | 3,526 | 1,100,429 |
| EBITDAI | 22,375 | 14,320 | 9,543 | 3,526 | 49,764 |
| Less: depreciation and amortisation | | | | | (32,230) |
| Add: net reversal of impairment expense | | | | | 97 |
| Less: net interest expense | | | | | (33,526) |
| Loss before income tax | | | | | (15,895) |
| Segment assets * | 285,244 | 338,168 | 102,172 | --- | 725,584 |
| Unallocated assets: | | | | | |
| Deferred tax | | | | | 15,712 |
| Total assets | | | | | 741,296 |
| Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | 14,167 | 23,749 | 1,695 | --- | 39,611 |

* Refer to the working capital section (a) correction of prior period error on page 52.

(b) Breakdown of segment results between continuing and discontinuing operations

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

| 2017 | Asia Pacific \$'000 | Americas \$'000 | Europe \$'000 | Rest of the World \$'000 | Total \$'000 |
|---|------------------------|--------------------|------------------|-----------------------------|-----------------|
| From continuing operations including significant items | | | | | |
| Sales to external customers | 366,956 | 432,905 | 174,828 | --- | 974,689 |
| Third party royalties | --- | --- | --- | 3,048 | 3,048 |
| Total segment revenue | 366,956 | 432,905 | 174,828 | 3,048 | 977,737 |
| EBITDAI | (23,640) | 47,983 | 17,764 | 3,048 | 45,155 |
| Less: depreciation and amortisation | | | | | (28,203) |
| Less: impairment expense | | | | | (106,450) |
| Less: net interest expense | | | | | (31,294) |
| Loss before income tax | | | | | (120,792) |
| 2017 | | | | | |
| From discontinued operations including significant items | | | | | |
| Sales to external customers | 25,987 | --- | --- | --- | 25,987 |
| Third party royalties | --- | --- | --- | --- | --- |
| Total segment revenue | 25,987 | --- | --- | --- | 25,987 |
| EBITDAI | 54,106 | --- | --- | --- | 54,106 |
| Less: depreciation and amortisation | | | | | (751) |
| Profit before income tax (note 7) | | | | | 53,355 |

Note 1. Segment information (continued)**(b) Breakdown of segment results between continuing and discontinuing operations (continued)**

| 2016 | Asia Pacific \$'000 | Americas \$'000 | Europe \$'000 | Rest of the World \$'000 | Total \$'000 |
|---|------------------------|--------------------|------------------|-----------------------------|-----------------|
| From continuing operations including significant items | | | | | |
| Sales to external customers | 395,057 | 481,279 | 192,666 | --- | 1,069,002 |
| Third party royalties | --- | --- | --- | 3,526 | 3,526 |
| Total segment revenue | 395,057 | 481,279 | 192,666 | 3,526 | 1,072,528 |
| EBITDAI | 15,805 | 14,320 | 9,543 | 3,526 | 43,194 |
| Less: depreciation and amortisation | | | | | (31,217) |
| Less: impairment expense | | | | | (1,033) |
| Less: net interest expense | | | | | (33,526) |
| Loss before income tax | | | | | (22,582) |
| 2016 | | | | | |
| | Asia Pacific \$'000 | Americas \$'000 | Europe \$'000 | Rest of the World \$'000 | Total \$'000 |
| From discontinued operations including significant items | | | | | |
| Sales to external customers | 27,901 | --- | --- | --- | 27,901 |
| Third party royalties | --- | --- | --- | --- | --- |
| Total segment revenue | 27,901 | --- | --- | --- | 27,901 |
| EBITDAI | 6,570 | --- | --- | --- | 6,570 |
| Less: depreciation and amortisation | | | | | (1,013) |
| Add: Reversal of impairment expense | | | | | 1,130 |
| Less: net interest expense | | | | | --- |
| Profit before income tax (note 7) | | | | | 6,687 |

(c) Other segment information**Segment revenue**

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

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

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Total segment revenue | 1,003,724 | 1,100,429 |
| Other revenue, including interest revenue | 1,715 | 3,106 |
| Less: sales revenue from discontinued operations | (25,987) | (27,901) |
| Total revenue from continuing operations | 979,452 | 1,075,634 |

EBITDAI

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

Other segment revenue information

Based on statutory legal entity reporting, segment revenue in relation to Australia represents 63% of Asia Pacific (2016: 63%), segment revenue in relation to the United States of America represents 85% of Americas (2016: 86%) and segment revenue in relation to France represents 88% of Europe (2016: 86%).

Segment revenue in relation to retail represents 45% of the Group's total revenue for the year ended 30 June 2017 (2016: 43%), 67% of Asia Pacific's total revenue for the year ended 30 June 2017 (2016: 65%), 28% of Americas' total revenue for the year ended 30 June 2017 (2016: 26%) and 37% of Europe's total revenue for the year ended 30 June 2017 (2016: 38%).

No single customer represents more than 10% of the Group's total revenue for the years ended 30 June 2017 and 30 June 2016.

Segment assets

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

Segment assets, excluding deferred tax assets, in relation to Australia represents 70% of Asia Pacific (2016: 71%), in relation to the United States of America represents 85% of Americas (2016: 88%) and in relation to France represents 83% of Europe (2016: 82%).

Note 2. Revenue and other income

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

Sale of goods

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

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

Interest income

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

Royalty income

Royalty income is recognised as it accrues when associated sales are made by the licensees.

Agent commissions

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

Sale of consignment inventory

Agreements are entered into with certain customers whereby a consignment stock arrangement is in place. Revenue is recognised in accordance with AASB 118, at the point at which the risks and rewards are substantially transferred, which in this case is the point at which the Group's customer makes a sale to the end customer. Under this arrangement, inventory is concurrently de-recognised at this stage.

| | 2017 | 2016 |
|---|----------------|------------------|
| | \$'000 | \$'000 |
| Revenue from continuing operations | | |
| <i>Sales revenue</i> | | |
| Sale of goods | 974,689 | 1,069,002 |
| Royalties | 3,048 | 3,526 |
| | <u>977,737</u> | <u>1,072,528</u> |
| <i>Other revenue</i> | | |
| Interest | 521 | 824 |
| Other | 1,194 | 2,282 |
| | <u>1,715</u> | <u>3,106</u> |
| Total revenue from continuing operations | <u>979,452</u> | <u>1,075,634</u> |
| Revenue from discontinued operations (note 7) | | |
| Sale of goods | 25,987 | 27,901 |
| Interest | --- | --- |
| | <u>25,987</u> | <u>27,901</u> |
| Other income from continuing operations | | |
| Japan customs duty refund | 749 | --- |
| South African warehouse fire – business interruption insurance income | 1,273 | --- |
| Other | 1,458 | --- |
| Gain from adjustment to contingent consideration | --- | 2,413 |
| Insurance settlement | --- | 5,000 |
| South African warehouse fire - insurance income | --- | 1,240 |
| | <u>3,480</u> | <u>8,653</u> |

Note 3. Expenses

Loss before income tax includes the following specific expenses from continuing operations:

| | 2017 | 2016 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| <i>Cost of goods sold</i> * | 479,255 | 533,922 |
| <i>Selling, general and administrative expenses</i> * | 364,123 | 410,243 |
| <i>Employee benefits expense (included in the amounts above)</i> * | 204,124 | 225,065 |
| <i>Depreciation</i> | | |
| Buildings | 480 | 694 |
| Plant and equipment | 19,446 | 20,834 |
| Plant and equipment under finance lease | 1,189 | 1,253 |
| Total depreciation ^ | <u>21,115</u> | <u>22,781</u> |
| <i>Amortisation of finite life intangible assets</i> ^ | 2,834 | 4,609 |
| <i>Interest and finance charges</i> | | |
| Interest expense | 31,815 | 34,350 |
| Other finance costs | 235 | 556 |
| Term loan prepayment fee * | 1,650 | --- |
| Amortisation of capitalised borrowing costs | 4,254 | 3,827 |
| Write-off of capitalised borrowing costs * | --- | 3,614 |
| Total interest and finance charges | <u>37,954</u> | <u>42,347</u> |
| <i>Net loss on disposal of property, plant and equipment and intangibles</i> ^ * | 218 | 360 |
| <i>Foreign exchange losses</i> ^ * | 1,480 | 617 |
| <i>Loss from adjustment to contingent consideration</i> ^ * | 1,007 | --- |
| <i>Divestment of immaterial operations including divestment costs</i> ^ * | 157 | 4,904 |
| <i>Rental expense relating to operating leases</i> | | |
| Minimum lease payments | 86,877 | 80,923 |
| Contingent rentals | (837) | (79) |
| Sub-leases | 62 | 79 |
| Total rental expense relating to operating leases ^ | <u>86,102</u> | <u>80,923</u> |
| <i>Impairment of other assets</i> | | |
| Inventories (included in the cost of goods sold amount above) | 2,051 | 4,448 |
| Trade receivables ^ | 3,029 | 5,130 |
| Intangibles ^ * | 106,450 | 1,033 |

* Included in these expenses are a number of significant items. Refer to note 5 for further information.

^ Included within the other expenses line item in the income statement.

Note 4. Taxes**Critical accounting estimates and judgments**

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

In the majority of jurisdictions, the Group recognises a deferred tax asset only to the extent it offsets a deferred tax liability. This is on the basis that it is not considered probable that sufficient taxable profits will be generated in those jurisdictions to utilise a deferred tax asset in excess of the deferred tax liability. The main exceptions to this position are Australia, Japan and New Zealand where the deferred tax asset being recognised exceeds the deferred tax liability (on the basis that recovery of the deferred tax asset is probable). With the exception of New Zealand, no deferred tax asset is being recognised in respect of any tax losses on the basis that some conditions including continuity of ownership tests may not be met and utilisation of any tax losses in the other jurisdictions is not considered probable.

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

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

The statutory loss before tax for the year ended 30 June 2017 was \$67.4 million with an income tax expense of \$9.7 million. The income tax expense arises primarily from non-claimable withholding tax credits and the prevailing position that deferred tax assets are not being recognised on tax losses or temporary differences in most jurisdictions, most notably in Europe and North America. Cash payments for income taxes for the period was \$4.1 million.

Income tax expense

| | 2017 | 2016 |
|---|---------------|--------------|
| | \$'000 | \$'000 |
| (a) Income tax expense | | |
| Current tax | 6,075 | 4,298 |
| Deferred tax | 2,724 | 2,246 |
| Adjustments of prior periods | 893 | 1,300 |
| | 9,692 | 7,844 |
| Income tax expense is attributable to: | | |
| Loss from continuing operations | 9,692 | 7,844 |
| Profit from discontinued operations (note 7) | --- | --- |
| Aggregate income tax expense | 9,692 | 7,844 |
| Deferred income tax (revenue)/expense included in income tax expense comprises: | | |
| Decrease in deferred tax assets | 2,734 | 3,311 |
| Decrease in deferred tax liabilities | (10) | (1,065) |
| | 2,724 | 2,246 |

Note 4. Taxes (continued)**Income tax expense (continued)**

| | 2017 | 2016 |
|---|-----------------|-----------------|
| | \$'000 | \$'000 |
| (b) Reconciliation of income tax expense to prima facie tax payable | | |
| Loss from continuing operations before income tax expense | (120,792) | (22,582) |
| Profit from discontinuing operation before income tax expense | 53,355 | 6,687 |
| | <u>(67,437)</u> | <u>(15,895)</u> |
| Tax at the Australian tax rate of 30% (2016: 30%) | (20,231) | (4,769) |
| Tax effect of amounts which are not (taxable)/deductible in calculating taxable income: | | |
| Net exempt benefit | (962) | (606) |
| Impairment of goodwill and brands | 4,707 | --- |
| Non-claimable credits | 951 | 1,647 |
| Sundry items | (2,985) | (2,472) |
| Accounting gain on sale of Tigerlily brand | (14,353) | --- |
| Capital gain on the sale of Tigerlily brand | 14,724 | --- |
| Divestment of immaterial operations | --- | 2,655 |
| Other non-deductible permanent differences | 2,589 | 1,977 |
| | <u>(15,560)</u> | <u>(1,568)</u> |
| Difference in overseas tax rates | (1,836) | (201) |
| Under provision in prior years | 893 | 1,300 |
| Utilisation of prior year tax losses previously not recognised | (16,219) | (1,716) |
| Reinstatement of prior year temporary differences previously not recognised | --- | (1,301) |
| Tax losses not recognised in current period | 9,017 | 4,489 |
| Temporary differences not recognised in current period | 6,059 | 6,022 |
| Temporary difference not recognised on goodwill impairment | 27,103 | --- |
| Foreign currency related items | 235 | 819 |
| Income tax expense | <u>9,692</u> | <u>7,844</u> |
| (c) Amounts recognised directly in equity | | |
| Deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited to equity: | | |
| Net deferred tax | 30 | 299 |
| | <u>30</u> | <u>299</u> |
| (d) Tax benefit relating to items of other comprehensive income | | |
| Cash flow hedges | (362) | (2,110) |
| | <u>(362)</u> | <u>(2,110)</u> |

Current tax assets and liabilities

| | 2017 | 2016 |
|-----------------------|---------------|--------|
| | \$'000 | \$'000 |
| Income tax receivable | 28 | 1,499 |
| Income tax payable | 5,054 | 3,629 |

Note 4. Taxes (continued)**Deferred tax assets and liabilities**

| | Consolidated balance sheet | | Consolidated income statement | |
|---|----------------------------|----------------|-------------------------------|----------------|
| | 2017 \$'000 | 2016 \$'000 | 2017 \$'000 | 2016 \$'000 |
| Deferred tax balances recognised | | | | |
| Trade and other receivables | 5,202 | 5,456 | (412) | 1,009 |
| Employee benefits | 2,145 | 2,925 | 263 | 216 |
| Inventories | 608 | 589 | (10) | 397 |
| Trade and other payables | 990 | 999 | (116) | 673 |
| Property, plant and equipment | 5,970 | 6,667 | 662 | 1,213 |
| Rights issue | 220 | 595 | 375 | 665 |
| Other | 1,476 | 848 | 1,115 | 649 |
| Tax losses | 914 | 1,190 | 274 | (1,145) |
| Cash flow hedges | 361 | 964 | --- | 138 |
| Provisions | 3,103 | 3,253 | 583 | (504) |
| Total deferred tax assets | 20,989 | 23,486 | 2,734 | 3,311 |
| Trade and other receivables | (957) | (76) | 343 | 71 |
| Employee benefits | (4,515) | (4,710) | (165) | (314) |
| Trade and other payables | (64) | (44) | 19 | (8) |
| Property, plant and equipment | (1,264) | (1,477) | (221) | (137) |
| Prepayments | (491) | (427) | 74 | (615) |
| Other | (392) | (1,032) | (60) | (62) |
| Cash flow hedges | (60) | (8) | --- | --- |
| Total deferred tax liabilities | (7,743) | (7,774) | (10) | (1,065) |
| Deferred tax expense | | | 2,724 | 2,246 |
| Net deferred tax assets | 13,246 | 15,712 | | |

Unrecognised deferred tax assets

The following table outlines all unrecognised and unused tax benefits of the Group. Deferred tax assets have not been recognised in respect of the following items:

| | Gross losses and temporary differences | | Potential tax benefit | |
|--|--|----------------|-----------------------|----------------|
| | 2017 \$'000 | 2016 \$'000 | 2017 \$'000 | 2016 \$'000 |
| Unrecognised and unused | | | | |
| Consolidated tax losses excluding USA state tax losses | 590,441 | 551,811 | 165,348 | 165,223 |
| USA state tax losses | 194,337 | 364,762 | 14,621 | 29,586 |
| Consolidated capital losses | 25,763 | 74,842 | 7,729 | 22,453 |
| Consolidated temporary differences | 235,395 | 115,389 | 79,989 | 39,224 |
| Consolidated tax credits | --- | --- | 19,287 | 19,072 |

The table below contains the portion of consolidated and United States of America (USA) state tax losses of the Group which are subject to a period of expiry in the relevant tax jurisdictions.

| | Consolidated tax losses excluding USA state tax losses | | USA state tax losses | |
|--|--|----------------|----------------------|----------------|
| | 2017 \$'000 | 2016 \$'000 | 2017 \$'000 | 2016 \$'000 |
| Tax loss expiry date | | | | |
| Subject to expiry within 12 months | 708 | 826 | --- | --- |
| Subject to expiry in 1 to 5 years | --- | 687 | 270 | 364 |
| Subject to expiry in more than 5 years | 320,298 | 287,922 | 194,067 | 364,398 |

Utilisation of all tax losses is subject to various loss testing rules in the relevant tax jurisdictions including continuity of ownership rules.

Note 5. Significant items

The Group results for the period and the prior corresponding period (pcp) include certain significant items.

For an expense or credit to be included as a significant item one of the following is applicable:

- (i) The item is non-recurring in nature;
- (ii) The item is an accounting expense which is unrelated to the results of the trading operations during the financial year (eg restatement of contingent consideration, reclassification of foreign currency translation reserve balances to the income statement due to wind up of legal entities or divestments, accounting compensation expense for business combinations / agreements);
- (iii) The item is an impairment expense or reversal of an impairment expense;
- (iv) The item is a gain / loss / fair value adjustment / cost associated with divesting brands or retail chains;
- (v) The item relates to a fundamental restructuring of the business so as to align the business with the strategy announced in December 2013. The expenses associated with the change are non-recurring in nature - but may span more than one financial year. These expenses will not recur once the restructuring is complete;
- (vi) The item relates to reversals of previous significant items;
- (vii) The item relates to the refinancing of the Group; or
- (viii) The item relates to write downs of assets which are material and unusual in nature.

The Group results may be impacted by other significant items in future reporting periods.

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

| | 2017 | 2016 |
|--|-----------------|----------------|
| | \$'000 | \$'000 |
| From continuing operations: | | |
| <i>Significant items included in cost of goods sold (note (a))</i> | | |
| Inventory adjustment | 1,928 | --- |
| Canadian warehouse closure | 1,015 | --- |
| South African warehouse fire - damaged inventory adjustment | --- | 1,240 |
| | <u>2,943</u> | <u>1,240</u> |
| <i>Significant items included in other income (note (b))</i> | | |
| Japan customs duty refund | (749) | --- |
| Insurance settlement | --- | (5,000) |
| South African warehouse fire - insurance income | --- | (1,240) |
| Gain from adjustment to contingent consideration | --- | (2,413) |
| | <u>(749)</u> | <u>(8,653)</u> |
| <i>Significant items included in selling, general and administrative expenses (note (c))</i> | | |
| Early termination of leases and onerous lease/restructuring expense | --- | (607) |
| Strategy and other restructuring costs | 5,550 | 8,520 |
| Redundancy costs | 3,299 | 1,409 |
| South American sales tax provision | (4,356) | --- |
| RVCA compensation expense | (4,912) | (2,935) |
| South African warehouse termination costs | 668 | --- |
| | <u>249</u> | <u>6,387</u> |
| <i>Significant items included in other expenses (note (d))</i> | | |
| Impairment of goodwill, brands and other intangibles | 106,450 | 1,033 |
| Loss on asset disposals – closure of retail stores | 307 | --- |
| Loss from adjustment to contingent consideration | 1,007 | --- |
| Foreign currency translation reserve reclassified to income statement | 335 | 225 |
| Divestment of immaterial operations including divestment costs | 157 | 4,904 |
| | <u>108,256</u> | <u>6,162</u> |
| <i>Significant items included in finance costs (note (e))</i> | | |
| Borrowing costs | --- | 3,614 |
| Term loan prepayment fee | 1,650 | --- |
| | <u>1,650</u> | <u>3,614</u> |
| Total from continuing operations | <u>112,349</u> | <u>8,750</u> |
| From discontinued operations: | | |
| <i>Significant items included in discontinued operations (note (f))</i> | | |
| Tigerlily gain on sale, net of transaction costs | (47,845) | --- |
| Tigerlily reversal of impairment expense | --- | (1,130) |
| Total significant items from discontinued operations | <u>(47,845)</u> | <u>(1,130)</u> |
| Total significant items | <u>64,504</u> | <u>7,620</u> |

Note 5. Significant items (continued)**(a) Significant items included in cost of goods sold***(i) Inventory adjustment*

During the year, an adjustment to inventory was required as part of a continuous improvement project that the Group undertook to improve the accuracy and consistent application across the Group of costing and valuation methodologies. This resulted in an adjustment to Canada inventory of \$1.9 million relating to prior periods.

(ii) Canadian warehouse closure

During the year, the Canadian warehouse was closed as part of the Group's logistics initiative. This resulted in the significant clearance of inventory.

(iii) South African warehouse fire - damaged inventory adjustment

On 30 June 2016, the Group announced that the South African warehouse and its contents were destroyed by a fire. The warehouse was leased from a third party. The inventory and fixtures which were in the warehouse at the time of the fire were written off as at 30 June 2016.

(b) Significant items included in other income*(i) Japan customs duty refund*

During the year, the Group received a refund relating to an item recognised as a significant item expense several years ago. Any significant item expense recognised in a prior year which is subsequently collected or refunded is recognised as a significant income write-back.

(ii) Insurance settlement

In the year ended 30 June 2016 the Company received an insurance settlement in relation to a legal dispute and this was considered to be a significant item given its nature is outside of normal trading. Refer to note 2.

(iii) South African warehouse fire - insurance income

On 30 June 2016, the Group announced that the South African warehouse and its contents were destroyed by a fire. The warehouse was leased from a third party. The inventory and fixtures which were in the warehouse at the time of the fire were written off as at 30 June 2016. The Group received an insurance settlement in relation to the inventory and fixtures and recognised an estimate of the insurance income and associated receivable as at 30 June 2016. Refer to note 2.

(iv) Gain from adjustment to contingent consideration

In accordance with Australian Accounting Standards, adjustments to deferred consideration payable must be recorded through the income statement. This item related to the RVCA deferred consideration payable and was considered to be a significant item given its nature was outside of normal trading. Refer to note 2.

(c) Significant items included in selling, general and administrative expenses*(i) Early termination of leases and onerous lease / restructuring expense*

During the year ended 30 June 2016 the Group adjusted the onerous lease provision on a number of loss making or underperforming stores in its portfolio that were intended to close by either early termination or trading the stores to expiry. Any provision recognised in a prior year which was surplus to the Group's requirement is recognised as a significant income write-back.

(ii) Strategy and other restructuring costs

As a result of the strategy announced to the market in December 2013 following the appointment of CEO Neil Fiske, significant consulting costs were incurred, as work was and continues to be undertaken to develop and implement the restructure of the Group.

In the years ended 30 June 2017 and 30 June 2016 restructuring initiatives include consulting costs in relation to the supply chain reconfiguration and other key strategic priorities.

(iii) Redundancy costs

During the years ended 30 June 2017 and 30 June 2016 as result of continued restructuring of the Group in line with the strategy restructuring plans, redundancy costs were incurred.

(iv) South American sales tax provision

A provision for Value Added Tax credits and associated penalties and interest was recognised in previous financial years through significant items. The likelihood of payment being required is now assessed to be low so the majority of the provision has been reversed through significant items in the current year. Any significant item expense recognised in a prior year which is subsequently reversed is recognised as a significant income write-back.

(v) RVCA compensation expense

Under the terms of a contract with the founder of RVCA, announced to the market on 6 February 2014 and in accordance with Australian Accounting Standards, the Group is required to recognise through the income statement any deemed compensation expense attached to the employment arrangement which has been entered into. The financial aspects of the agreed contractual extension include a performance related component for the period to 2018, and the issue of 240,000 ten year options exercisable at \$3.00 per option. These resulted in non-cash accounting items for the years ended 30 June 2017 and 30 June 2016. These will become a cash item only if the required targets under the agreement are met in future reporting periods. RVCA compensation expense is considered to be a significant item given its nature is outside of normal trading. During the year, the RVCA compensation income was a result of a write back of accumulated expenses previously recognised in the Group's income statement as a result of performance hurdles that were reassessed and are now unlikely to be met.

Note 5. Significant items (continued)**(c) Significant items included in selling, general and administrative expenses (continued)***(vi) South African warehouse termination costs*

On 30 June 2016, the Group announced that the South African warehouse and its contents were destroyed by a fire. In the year ended 30 June 2017 it was decided to renegotiate and reduce the size of the warehouse in South Africa. The terms of this renegotiation included a lump sum fee of \$0.7 million which has been treated as a significant item.

(d) Significant items included in other expenses*(i) Impairment of goodwill and brands and other intangibles*

Refer to note 16 for detailed disclosure surrounding the impairment of goodwill and brands and other intangibles during the year ended 30 June 2017 and 30 June 2016.

(ii) Loss on asset disposals – closure of retail stores

During the year ended 30 June 2017 the Group early exited a retail store in Australia resulting in a significant disposal of fixed assets.

(iii) Loss from adjustment to contingent consideration

In accordance with Australian Accounting Standards, adjustments to deferred consideration payable must be recorded through the income statement. This item relates to RVCA deferred consideration payable and is considered to be a significant item given its nature is outside of normal trading.

(iv) Foreign currency translation reserve reclassified to income statement

During the years ended 30 June 2017 and 30 June 2016 the Group wound up a number of foreign denominated functional currency entities. In prior years the cumulative amount of exchange differences arising from the translation of these entities to AUD had been carried forward in the foreign currency translation reserve in equity. As a result of the winding up of these entities the cumulative exchange differences were removed from this reserve and recognised in the income statement.

(v) Divestment of immaterial operations including divestment costs

On 29 June 2016, the Group announced the sale of Sector 9 for approximately US\$12 million (\$16.1 million) to an affiliate of Bravo Sports, a portfolio company of Transom Capital Group which resulted in a \$4.9 million loss including divestment costs. The results of Sector 9 did not meet the conditions under AASB 5 to be disclosed as a discontinued operation during the year ended 30 June 2016. During the year ended 30 June 2017, further divestment costs were incurred in relation to the sale of Sector 9.

(e) Significant items included in finance costs*(i) Borrowing costs*

On 14 July 2016, the Group announced that it had refinanced its asset-based multi-currency revolving credit facility. As the Group expected the refinancing to occur shortly after 30 June 2016, all unamortised capitalised borrowing costs associated with the General Electric Capital Corporation ABL facility were written off as at 30 June 2016.

(ii) Term loan prepayment fee

Effective 1 April 2017 the Group sold Tigerlily for \$60 million to Crescent Capital Partners. In accordance with the provisions of the term loan, proceeds from the divestment were used to partially repay the term loan. This early repayment incurred a prepayment fee of \$1.7 million. Refer to note 27.

(f) Significant items included in discontinued operations*(i) Tigerlily gain on sale, net of transaction costs*

Effective 1 April 2017 the Group sold Tigerlily for \$60 million to Crescent Capital Partners which resulted in a \$47.8 million gain on sale, net of divestment costs. Refer to note 7.

(ii) Tigerlily reversal of impairment expense

During the year ended 30 June 2016 the Group reversed impairment expense relating to Tigerlily brand. Refer to note 16.

Note 6. Earnings per share

Basic earnings per share (EPS) is profit/(loss) for the year attributable to ordinary equity holders of the Company, divided by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares and adjusted for any bonus elements in ordinary shares issued during the year.

Diluted EPS is calculated on the same basis as basic EPS except that it reflects the impact of any potential commitments the Group has to issue shares in the future. There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements that would impact the EPS calculations.

(a) Information concerning the classification of securities

| Securities | Details | Dilutive/anti-dilutive impact on EPS calculation |
|---|---|---|
| Shares held in trust | <p>The shares held in trust are a result of unvested and forfeited performance shares sourced for the purposes of servicing the Group's Executive Long-Term Incentive Plan and Short-Term Incentive deferral scheme and are considered to be potential ordinary shares.</p> <p>The shares held in trust could potentially dilute basic earnings per share in the future.</p> | Anti-dilutive |
| Altamont Consortium options | <p>The 8,451,958 options in Billabong International Limited exercisable at \$2.50 were granted on 16 July 2013 to the Altamont Consortium.</p> <p>The options are exercisable at the election of the Altamont Consortium and will expire seven years from the date of grant. Shares issued upon exercise of the options will rank equally with the then shares on issue.</p> <p>The options have not been exercised as at 30 June 2017.</p> | Anti-dilutive |
| Centerbridge / Oaktree (C/O) Consortium options | <p>The 5,916,371 options in Billabong International Limited exercisable at \$2.50 were granted on 3 December 2013 to the C/O Consortium.</p> <p>The options will be exercisable at the election of the C/O and will expire seven years from the date of grant. Shares issued upon exercise of the options will rank equally with the then shares on issue.</p> <p>The options have not been exercised as at 30 June 2017.</p> | Anti-dilutive |
| Pat Tenore options | <p>The 240,000 10 year options in Billabong International Limited exercisable at \$3.00 granted on 31 January 2014 to Pat Tenore, the founder of RVCA.</p> <p>The options have not been exercised as at 30 June 2017.</p> | Anti-dilutive |
| Executive Long-Term Incentive Plan - Options | <p>The 3,612,230 market priced options exercisable at \$1.23 and 5,745,070 premium priced options exercisable at \$1.85 in Billabong International Limited were granted under the Executive Long-Term Incentive Plan on 30 November 2016 (note 31).</p> <p>The options will be exercisable three years from the date of grant, subject to meeting the vesting condition.</p> <p>The options have not been exercised as at 30 June 2017.</p> | Anti-dilutive |

Note 6. Earnings per share (continued)**(a) Information concerning the classification of securities (continued)**

The options noted above are anti-dilutive as they are currently out of the money however, could potentially dilute basic earnings per share in the future.

In line with the requirements of AASB133, the assessment of the requirement to dilute earnings per share is based on whether there is profit from continuing operations attributable to ordinary shareholders. As the Group has reported a loss in the current year, there is no dilutionary effect. This also applies to discontinued operations, regardless of its profit or loss making position.

(b) Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company

| | 2017 | 2016 |
|----------------------------|--------------|--------|
| | Cents | Cents |
| Basic earnings per share | (66.0) | (15.4) |
| Diluted earnings per share | (66.0) | (15.4) |

(c) Earnings per share for loss attributable to the ordinary equity holders of the Company

| | 2017 | 2016 |
|----------------------------|--------------|--------|
| | Cents | Cents |
| Basic earnings per share | (39.0) | (12.0) |
| Diluted earnings per share | (39.0) | (12.0) |

(d) Earnings used in calculating earnings per share

| | 2017 | 2016 |
|--|---------------|----------|
| | \$'000 | \$'000 |
| Loss from continuing operations attributable to the ordinary equity holders of the Company | (130,484) | (30,426) |
| Loss attributable to the ordinary equity holders of the Company | (77,129) | (23,739) |

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

| | 2017 | 2016 |
|--|--------------------|--------------------|
| | Number | Number |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 197,700,701 | 197,655,647 |
| <i>Adjustments for calculating diluted earnings per share:</i> | | |
| Performance shares and conditional rights | --- | --- |
| Options | --- | --- |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | <u>197,700,701</u> | <u>197,655,647</u> |

Note 7. Discontinued operations

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

(a) Description**2017**

Effective 1 April 2017 the Group sold Tigerlily for \$60 million to Crescent Capital Partners which resulted in a \$47.8 million gain net of divestment costs. The results of Tigerlily to 1 April 2017 have been reported in these financial statements as discontinued operations.

2016

On 29 June 2016 the Group announced the sale of Sector 9 for approximately US\$12 million (\$16.1 million) to an affiliate of Bravo Sports, a portfolio company of Transom Capital Group which resulted in a \$4.9 million loss including divestment costs. The results of Sector 9 did not meet the conditions under AASB 5 to be disclosed as a discontinued operation during the year ended 30 June 2016.

Financial information relating to the discontinued operations for the year ended 30 June 2017 is set out below. Refer to note 1 for the impact of divestments on the operating segments.

Note 7. Discontinued operations (continued)**(b) Financial performance and cash flow information**

The financial performance and cash flow information presented are for the year ended 30 June 2017.

| | 2017 \$'000 | 2016 \$'000 |
|---|------------------------------|----------------|
| Revenue (note 2) | 25,987 | 27,901 |
| Expenses | (20,477) | (21,214) |
| Profit before income tax (includes significant items- see below) | 5,510 | 6,687 |
| Income tax benefit | --- | --- |
| Profit after income tax of discontinued operations | 5,510 | 6,687 |
| Profit on sale, including transaction costs before income tax (note 5) | 47,845 | --- |
| Income tax expense | --- | --- |
| Profit on sale, including transaction costs after income tax | 47,845 | --- |
| Profit from discontinued operations | 53,355 | 6,687 |
| <i>Earnings per share for profit from discontinuing operations attributable to the ordinary equity holders of the Company</i> | 2017 Cents | 2016 Cents |
| Basic earnings per share | 27.0 | 3.4 |
| Diluted earnings per share | 27.0 | 3.4 |
| <i>Cash flow</i> | 2017 \$'000 | 2016 \$'000 |
| Net cash inflow from operating activities | 3,813 | 5,764 |
| Net cash outflow from investing activities | (308) | (1,353) |
| Net cash inflow from financing activities | --- | --- |
| Net increase in cash generated by discontinued operations | 3,505 | 4,411 |

(c) Details of the sale of Tigerlily

| | 2017 \$'000 |
|--|------------------------------|
| Consideration received or receivable: | |
| Cash net of transaction costs | 57,644 |
| Working capital adjustment payable | (1,239) |
| Transaction costs payable | (281) |
| Total disposal consideration | 56,124 |
| Carrying value of net assets sold | (8,279) |
| Gain on sale, net of transaction costs before income tax | 47,845 |
| Income tax | --- |
| Gain on sale, net of transaction costs after income tax | 47,845 |

Note 7. Discontinued operations (continued)**(c) Details of the sale of Tigerlily (continued)**

The carrying value of assets and liabilities as at the date of sale (1 April 2017) were:

| | 1 April 2017 Carrying value \$'000 |
|--|---|
| Cash and cash equivalents | 8 |
| Trade and other receivables | 1,273 |
| Inventory | 2,555 |
| Prepayments | 245 |
| Plant and equipment (note 15) | 2,393 |
| Identifiable finite life intangible assets (note 16) | 35 |
| Identifiable brand intangible assets (note 16) | 3,600 |
| Total assets | 10,109 |
| Trade and other payables | (1,034) |
| Provisions | (300) |
| Other payables | (496) |
| Total liabilities | (1,830) |
| Net assets | 8,279 |

Working capital

Working capital at \$184.9 million represents 19.1% of the prior twelve months' sales stated at year end exchange rates, being 2.0% higher compared to the pcp of 17.1% when excluding Tigerlily. Working capital as a percentage of sales at June 2017 compared to June 2016 is higher as result of a reduction in creditors as part of the Group's supplier consolidation strategy, as well as lower inventory purchases when compared to the pcp.

| | 2017 \$'000 | Restated 2016 \$'000 |
|-----------------------------|----------------|----------------------------|
| Trade and other receivables | 169,325 | 171,644 |
| Inventories * | 162,311 | 182,604 |
| Trade and other payables * | (146,706) | (169,765) |
| Net working capital | <u>184,930</u> | <u>184,483</u> |

* Refer to the working capital section (a) correction of prior period error below.

(a) Correction of prior period error

Accounting for inventory in the United States of America

The inventory controls in the United States of America (USA) are manual and the month-end process requires management input and analysis. In the current year, the Group undertook a number of initiatives to improve the accuracy of key reports necessary to determine the closing inventory balance and related inventory accruals for the USA. These reports were used to look at the opening balance sheet at 1 July 2015 and for the year ended 30 June 2016. This resulted in the identification of an error impacting opening retained earnings as at 1 July 2015 of \$6.4 million.

The adjustment relating to the prior period error in the opening balance sheet at 1 July 2015 of \$6.4 million was partly recognised in the Interim Financial Report at 31 December 2016 as an expense in the current year and disclosed as a significant item (\$3.1 million). A further amount (\$3.3 million) was identified in the second half of the financial year.

In the Interim Financial Report at 31 December 2016 it was not deemed material to restate prior periods. However, with the additional second half USA adjustment identified, it was determined that the Group should restate prior periods for the USA adjustment totalling \$6.4 million.

The adjustment of \$6.4 million was determined to relate to historical income statement periods before 1 July 2015, however the improved reporting identified that both the inventory and trade and other payables accounts needed adjusting in the 30 June 2016 and 30 June 2015 financial reports. Therefore, the Group has restated the balance sheet for the financial year ended 30 June 2016 and the opening balance sheet at 1 July 2015.

The financial impacts of the restatement to the financial statements are:

Income statement changes

- An increase in the cost of goods sold in the income statement of \$6.4 million in 2015 and/or earlier financial years.
- The income statement adjustment was recognised in the 30 June 2015 reporting period and/or earlier reporting periods which is prior to the comparative disclosures included in this Financial Report.

Balance sheet changes

- A decrease in inventory of \$3.0 million in 2016 and \$0.8 million in 2015.
- An increase in trade and other payables of \$3.4 million in 2016 and \$5.6 million in 2015.
- An increase in retained losses of \$6.4 million in both 2016 and 2015.
- As a consequence, the balance sheet comparatives at 30 June 2016 and opening position at 1 July 2015 in this Financial Report for the year ended 30 June 2017 have been restated with the only impact being on inventories, trade and other payables and retained losses.

The impact of this adjustment to the affected balance sheet line items at each balance date is shown below.

| | 30 June 2016 \$'000 | Adjustment \$'000 | Restated 30 June 2016 \$'000 | 30 June 2015 \$'000 | Adjustment \$'000 | Restated 30 June 2015 \$'000 |
|--------------------------|---------------------------|----------------------|---------------------------------------|---------------------------|----------------------|---------------------------------------|
| Inventories | 185,556 | (2,952) | 182,604 | 187,125 | (795) | 186,330 |
| Trade and other payables | (169,991) | (3,447) | (173,438) | (184,130) | (5,604) | (189,734) |
| Net assets | <u>259,289</u> | <u>(6,399)</u> | <u>252,890</u> | <u>281,584</u> | <u>(6,399)</u> | <u>275,185</u> |
| Retained losses | (720,876) | (6,399) | (727,275) | (697,137) | (6,399) | (703,536) |
| Total equity | <u>259,289</u> | <u>(6,399)</u> | <u>252,890</u> | <u>281,584</u> | <u>(6,399)</u> | <u>275,185</u> |

Note 8. Current assets - Trade and other receivables

All trade receivables are recognised at the date they are invoiced, initially at fair value and subsequently measured at amortised cost, and are principally on 30 day terms. They are presented as current assets unless collection is not expected for more than 12 months after the balance sheet date.

Other receivables is comprised of amounts receivable as a result of transactions outside the normal course of trading.

| | 2017 \$'000 | 2016 \$'000 |
|--|------------------------------|----------------|
| Trade receivables | 172,907 | 182,474 |
| Provision for impairment of receivables (note (a)) | (9,043) | (13,349) |
| Provision for sales returns (note (a)) | (5,508) | (5,931) |
| | <u>158,356</u> | <u>163,194</u> |
| Other receivables | 10,969 | 8,450 |
| | <u>169,325</u> | <u>171,644</u> |

(a) Impaired trade receivables

As at 30 June 2017 current trade receivables of the Group with a nominal value of \$16.4 million (2016: \$20.5 million) were impaired. The amount of the provision was \$9.0 million (2016: \$13.3 million). The individually impaired receivables mainly relate to retailers encountering difficult economic conditions. It was assessed that a portion of the impaired receivables is expected to be recovered. The ageing of these receivables is as follows:

| | 2017 \$'000 | 2016 \$'000 |
|----------------|------------------------------|----------------|
| Up to 3 months | 4,600 | 2,941 |
| 3 to 6 months | 2,415 | 7,804 |
| Over 6 months | 9,431 | 9,779 |
| | <u>16,446</u> | <u>20,524</u> |

Movements in the provision for impairment of receivables and sales returns are as follows:

| 2017 | Provision for impairment of receivables \$'000 | Provision for sales returns \$'000 |
|---|---|---|
| Opening balance at 1 July | 13,349 | 5,931 |
| Provision for impairment recognised during the year | 3,029 | 3,333 |
| Receivables written off, collected or returns during the year | (7,172) | (3,607) |
| Exchange differences | (163) | (149) |
| Closing balance at 30 June | <u>9,043</u> | <u>5,508</u> |
| 2016 | Provision for impairment of receivables \$'000 | Provision for sales returns \$'000 |
| Opening balance at 1 July | 24,676 | 7,403 |
| Provision for impairment recognised during the year | 5,130 | 3,836 |
| Receivables written off, collected or returns during the year | (17,078) | (5,703) |
| Exchange differences | 621 | 395 |
| Closing balance at 30 June | <u>13,349</u> | <u>5,931</u> |

The creation and release of the provision for impaired receivables has been included in other expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. The provision for sales returns is recognised based on the estimated return of goods sold by the Group. This is recognised against sale of goods in the income statement.

Note 8. Current assets - Trade and other receivables (continued)**(b) Past due but not impaired**

As at 30 June 2017, trade receivables of \$43.1 million (2016: \$34.7 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

| | 2017 | 2016 |
|----------------|---------------|---------------|
| | \$'000 | \$'000 |
| Up to 3 months | 31,101 | 25,223 |
| 3 to 6 months | 7,186 | 5,896 |
| Over 6 months | 4,831 | 3,596 |
| | <u>43,118</u> | <u>34,715</u> |

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

(c) Credit risk

Credit is the risk of financial loss to the Group if a customer does not pay in full the amounts owing to the Group under their customer contract.

Credit risk management

Customer related credit risk is managed by the Group in accordance with the procedures outlined in the Group policy. These include:

- All customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their financial position, past experience and other factors;
- Credit limits are set for each individual customer. These credit limits are regularly monitored; and
- Collectability of trade receivables are reviewed on an ongoing basis.

Despite the Group not holding any collateral as security, the Group has no significant concentrations of credit risk as the vast majority of trade receivables are with existing customers (who have been customers for at least six months) with no defaults in the past, sales to retail customers are settled in cash or using major credit cards and the Group undertakes transactions with a large number of customers with policies in place to ensure sales are made to customers with appropriate credit history.

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

Note 9. Current assets - Inventories

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

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

Raw materials

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

Work in progress and finished goods

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

| | 2017 \$'000 | Restated 2016 \$'000 |
|---|------------------------------|----------------------------|
| Raw materials and stores | 600 | 673 |
| Work in progress | 4,118 | 4,645 |
| Finished goods held at cost * | 147,925 | 164,934 |
| Finished goods held at net realisable value | 9,668 | 12,352 |
| | 162,311 | 182,604 |

* Refer to the working capital section (a) correction of prior period error on page 52.

(a) Amounts recognised in profit or loss

Inventories recognised as an expense from continuing operations during the year ended 30 June 2017 amounted to \$477.2 million (2016: \$529.5 million). These were included in cost of goods sold.

Write-downs of inventories to net realisable value from continuing operations recognised as an expense during the year ended 30 June 2017 amounted to \$2.1 million (2016: \$4.4 million). These were included in cost of goods sold.

Note 10. Current liabilities - Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the balance sheet date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Short-term obligations

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

| | 2017 \$'000 | Restated 2016 \$'000 |
|------------------|------------------------------|----------------------------|
| Trade payables | 102,781 | 121,408 |
| Other payables * | 43,925 | 48,357 |
| | 146,706 | 169,765 |

* Refer to the working capital section (a) correction of prior period error on page 52.

Cash Management/Net Debt

Capital risk management

The Group's objectives when managing capital are to:

- Ensure that there is secure access to sufficient capital to fund its strategies; and
- Subject to the above, to achieve the mix of debt and equity funding that minimises the overall cost of capital.

The Group defines gearing ratio as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet (including non-controlling interests) plus net debt.

The gearing ratios at 30 June 2017 and 30 June 2016 were as follows:

| | Notes | 2017 \$'000 | Restated 2016 \$'000 |
|---------------------------------|-------|----------------|----------------------------|
| Total borrowings | 13 | 220,321 | 274,377 |
| Less: cash and cash equivalents | 11 | (71,739) | (89,171) |
| Net debt | | 148,582 | 185,206 |
| Total equity * | | 175,244 | 252,890 |
| Total capital | | 323,826 | 438,096 |
| Gearing ratio | | 46% | 42% |

* Refer to the working capital section (a) correction of prior period error on page 52.

There has been an increase in the Group's gearing ratio compared to the prior year primarily due to the impairment charge which has been recognised in the financial year ended 30 June 2017 results. Excluding the impairment charge there would have been a decrease in the Group's gearing ratio due to the divestment of Tigerlily on 1 April 2017. The objective is to lower this ratio over the next few years as net cash generation increases.

The Group has complied with the financial covenant of its borrowing facility during the years ended 30 June 2017 and 30 June 2016.

Note 11. Current assets - Cash and cash equivalents

| | 2017 \$'000 | 2016 \$'000 |
|--------------------------|----------------|----------------|
| Cash at bank and in hand | 71,531 | 68,739 |
| Deposits | 208 | 20,432 |
| | 71,739 | 89,171 |

(a) Credit risk

Credit risk represents the loss that would be recognised if a counterparty failed to perform as contracted. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions and committed transactions.

The Group has no significant concentrations of credit risk.

Credit risk management

Credit risk from balances held with financial institutions is managed by the Group in accordance with the procedures outlined in the Group policy. These include:

- Cash deposits are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution;
- Financial guarantees are provided only in exceptional circumstances and are subject to specific Board approval; and
- The vast majority of cash at bank and short-term bank deposits are held with banks of a credit rating of at least 'A'.

Note 12. Reconciliation of loss for the year to net cash inflow/(outflow) from operating activities

| | 2017 \$'000 | Restated 2016 \$'000 |
|---|------------------------------|----------------------------|
| Loss for the year | (77,129) | (23,739) |
| Depreciation and amortisation (excluding amortisation of capitalised borrowing costs) | 24,700 | 28,403 |
| Impairment of intangibles | 106,450 | (97) |
| Share-based payment amortisation expense | 514 | 1,615 |
| Net loss on sale of non-current assets | 239 | 360 |
| Gain on divestments, including transaction costs | (47,845) | --- |
| Loss on divestment of immaterial operations including divestment costs | 157 | 4,904 |
| Foreign currency translation reserve reclassified to income statement | 335 | 225 |
| Loss/(gain) from adjustment to contingent consideration | 1,007 | (2,413) |
| Interest paid in kind | 15,891 | 8,371 |
| Net exchange differences | (12,261) | (4,981) |
| Change in operating assets and liabilities adjusted for sale of Tigerlily: | | |
| (Increase)/decrease in trade debtors | 3,592 | (7,140) |
| (Increase)/decrease in inventories * | 22,848 | 3,726 |
| (Increase)/decrease in deferred tax assets | 2,466 | (328) |
| (Increase)/decrease in provision for income taxes receivable | 1,471 | 435 |
| (Increase)/decrease in other operating assets | (1,092) | (2,088) |
| Increase/(decrease) in trade creditors and other operating liabilities * | (24,589) | (19,528) |
| Increase/(decrease) in provision for income taxes payable | 1,425 | (486) |
| Increase/(decrease) in other provisions | (8,987) | (9,342) |
| Net cash inflow/(outflow) from operating activities | <u>9,192</u> | <u>(22,103)</u> |

* Refer to the working capital section (a) correction of prior period error on page 52.

Note 13. Current and non-current liabilities - Borrowings

Bank loans represent term loans at variable interest rates.

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. To the extent that it is probable that some or all of a loan facility will be drawn down, fees paid on the establishment of such loan facility are recognised as transaction costs on the loan and amortised on a straight-line basis over the term of the facility.

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

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

| | 2017 \$'000 | 2016 \$'000 |
|------------------------------|------------------------------|----------------|
| Current unsecured | | |
| Bank loans | 2,960 | 6,493 |
| Lease liabilities (note 25) | 1,247 | 1,675 |
| Total current borrowings | <u>4,207</u> | <u>8,168</u> |
| Non-current secured | | |
| Term loan facility | 216,114 | 264,956 |
| Non-current unsecured | | |
| Lease liabilities (note 25) | --- | 1,253 |
| Total non-current borrowings | <u>216,114</u> | <u>266,209</u> |

Centerbridge / Oaktree Consortium (C/O Consortium) Term Loan facility

The Group has a senior secured term loan facility which is denominated in US Dollars and has a maturity date of 16 September 2019. The facility has a single financial covenant that is tested on a quarterly basis. The facility incurs a fixed interest rate of 11.9% per annum (5.9% must be paid in cash and up to 6.0% paid in kind at the Company's option). The facility is subject to prepayment premiums, where in event of early repayment of certain amounts the C/O Consortium will be entitled to be paid a premium over and above the face value of the debt which is being repaid by the Company.

At 30 June 2017 the Group had \$223.9 million (US\$172.2 million) of borrowings under the term loan, offset by prepaid borrowing costs of \$7.8 million. No amounts were drawn during the year ended 30 June 2017 but \$15.9 million interest was paid in kind and \$54.8 million was repaid with a prepayment premium (note 5). At 30 June 2016 the Group had \$271.7 million (US\$201.7 million) of borrowings under the term loan, offset by prepaid borrowing costs of \$6.7 million.

Note 13. Current and non-current liabilities - Borrowings (continued)**Bank of America Merrill Lynch (BAML) ABL facility**

On 14 July 2016, the Group entered into a US\$100 million asset-based multi-currency credit facility with BAML to refinance the GE Capital ABL facility and to provide support for working capital, capital expenditures and other general corporate purposes of the Group. The BAML ABL facility incurs interest at a variable rate plus a margin between 0.5% and 2.0%. The facility term is five years (subject to terms and conditions).

The BAML ABL facility limit is US\$100 million and the amount available for drawing is determined by reference to the value of certain borrowing base assets held by relevant Group entities that are party to the facility. These borrowing base assets are subject to seasonal fluctuations.

At 30 June 2017 the Group had no borrowings drawn on the asset-based multi-currency credit facility (2016: Nil), but \$2.4 million letters of credit were outstanding under the letter of credit sub-facility (2016: \$7.8 million).

Asset-Based Revolver and Letter of Credit sub-facility

| | 2017 | 2016 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Borrowing base (85% is readily available to drawdown at any time) | 72,266 | 71,909 |
| Amount drawn by way of letters of credit | (2,363) | (7,810) |
| Net available amount for drawing as at balance date | <u>69,903</u> | <u>64,099</u> |
| Borrowings drawn on the asset-based multi-currency revolving credit facility | <u>---</u> | <u>---</u> |

(a) Assets pledged as security

The carrying amounts of assets pledged as security for current and non-current borrowings are:

| | 2017 | 2016 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Current | | |
| Cash and cash equivalents | 64,207 | 82,562 |
| Trade and other receivables | 148,275 | 152,894 |
| Inventories | 142,715 | 166,462 |
| Current tax receivables | 98 | 1,333 |
| Other | 13,687 | 12,597 |
| Total current assets pledged as security | <u>368,982</u> | <u>415,848</u> |
| Non-current | | |
| Receivables | 7,296 | 3,264 |
| Property, plant and equipment | 67,106 | 79,193 |
| Intangible assets | 56,419 | 163,193 |
| Deferred tax assets | 11,886 | 14,708 |
| Other | 3,954 | 4,250 |
| Total non-current assets pledged as security | <u>146,661</u> | <u>264,608</u> |
| Total assets pledged as security | <u>515,643</u> | <u>680,456</u> |

Billabong International Limited and certain of its subsidiaries have granted security interests in Australia and other jurisdictions, such as Canada and the United States of America, over certain assets and properties in favour of their financiers. The security interests will typically be enforceable by a financier if an event of default occurs and is continuing under the facility with that financier.

Note 13. Current and non-current liabilities - Borrowings (continued)**(b) Financing arrangements**

| | 2017 | 2016 |
|---|----------------|----------------|
| | \$'000 | \$'000 |
| Credit standby arrangements | | |
| Total facilities | | |
| Bank overdrafts and at-call facilities | 1,467 | 1,436 |
| Trade finance, cash advance and other facilities | 301,285 | 348,744 |
| | <u>302,752</u> | <u>350,180</u> |
| Used at balance date | | |
| Trade finance, cash advance and other facilities | 228,849 | 281,909 |
| | <u>228,849</u> | <u>281,909</u> |
| Unused at balance date | | |
| Bank overdrafts and at-call facilities | 1,467 | 1,436 |
| Trade finance, cash advance and other facilities | 72,436 | 66,835 |
| | <u>73,903</u> | <u>68,271</u> |
| Bank loan facilities (current and non-current) | | |
| Total facilities | <u>15,727</u> | <u>17,775</u> |
| Used at balance date | <u>2,960</u> | <u>6,493</u> |
| Unused at balance date | <u>12,767</u> | <u>11,282</u> |

(c) Cash flow interest rate risk

Interest rate risk is the risk that the Group is impacted by significant changes in interest rates.

The Group has no significant interest-bearing assets and therefore the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group has no significant borrowings issued at variable rates as the non-current term loan facility incurs interest at a fixed rate and the Group's cash flow interest rate risk arising from current borrowings is not significant.

Note 13. Current and non-current liabilities - Borrowings (continued)**(d) Liquidity risk**

Due to the financial liabilities within the Group, the Group is exposed to liquidity risk, being the risk of encountering difficulties in meeting such obligations.

Liquidity risk management

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to liquidate market positions. At the end of the reporting period the Group held deposits at call of \$0.2 million (2016: \$20.4 million). Due to the dynamic nature of the underlying businesses, the Group aims at maintaining flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising the undrawn borrowing facilities) and cash and cash equivalents (note 11) on the basis of expected cash flows. This is generally carried out at a local level in the operating companies of the Group in accordance with practice and limits set by the Group. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the Group's liquidity management policy involves monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | 2017 | | | | | Total contractual cash flows \$'000 | Carrying amount (assets) / liabilities \$'000 |
|---|------------------------------|-----------------------|---------------------|---------------------|------------------------|--|--|
| | Less than 6 months \$'000 | 6-12 months \$'000 | 1-2 years \$'000 | 2-5 years \$'000 | Over 5 years \$'000 | | |
| Non-interest bearing trade and other payables | 146,706 | --- | --- | --- | --- | 146,706 | 146,706 |
| Fixed rate debt | 7,732 | 7,314 | 14,651 | 259,122 | --- | 288,819 | 217,361 |
| Variable rate debt | 3,204 | 241 | 344 | --- | --- | 3,789 | 2,960 |
| Less: Cash | (71,739) | --- | --- | --- | --- | (71,739) | (71,739) |
| Net variable rate liquidity position | (68,535) | 241 | 344 | --- | --- | (67,950) | (68,779) |
| | 2016 | | | | | | |
| | Less than 6 months \$'000 | 6-12 months \$'000 | 1-2 years \$'000 | 2-5 years \$'000 | Over 5 years \$'000 | Total contractual cash flows \$'000 | Carrying amount (assets) / liabilities \$'000 |
| Non-interest bearing trade and other payables * | 169,765 | --- | --- | --- | --- | 169,765 | 169,765 |
| Fixed rate debt | 10,474 | 11,642 | 20,045 | 346,886 | --- | 389,047 | 267,884 |
| Variable rate debt | 6,918 | 239 | 664 | 219 | --- | 8,040 | 6,493 |
| Less: Cash | (89,171) | --- | --- | --- | --- | (89,171) | (89,171) |
| Net variable rate liquidity position | (82,253) | 239 | 664 | 219 | --- | (81,131) | (82,678) |

* Refer to the working capital section (a) correction of prior period error on page 52.

Note 14. Dividends

The Board has not declared a final ordinary dividend for the year ended 30 June 2017, nor did it do so for the year ended 30 June 2016. The Company's finance agreements place certain restrictions on the Company's ability to declare and/or make cash dividend payments depending upon the Company's leverage position and expected undrawn capacity.

There are no franking credits available for subsequent financial years to the equity holders of the parent entity based on a tax rate of 30% (2016: Nil franking credits). As the Board has not declared a final ordinary dividend for the year ended 30 June 2017, there is no impact on the franking account in relation to dividends recommended but not recognised as a liability at year end (2016: Nil).

The Dividend Reinvestment Plan (DRP) remains suspended.

Other assets and liabilities

Note 15. Non-current assets - Property, plant and equipment

Critical accounting estimates and judgments

Estimated impairment of property, plant and equipment

The Group tests, when indicators of impairment arise, whether property, plant and equipment has suffered any impairment in accordance with the accounting policy as discussed below. Impairment tests are performed based on the 'expected recoverable amount' of the asset using either the value-in-use (VIU) or fair value less costs of disposal (FVLCD) method.

Land is shown at cost. All other property, plant and equipment is stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter of lease term and estimated useful life.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing proceeds with an asset's carrying amount. These are included in the income statement.

| | Land and buildings | Furniture, fittings and equipment | Leased plant and equipment | Total |
|---|-----------------------------------|-----------------------------------|--|-----------|
| <i>Estimated useful lives</i> | <i>Buildings: 20-40 years</i> | <i>3-20 years</i> | <i>Shorter of lease term or 3-20 years</i> | |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| At 30 June 2015 | | | | |
| Cost | 53,998 | 272,245 | 15,481 | 341,724 |
| Accumulated depreciation and impairment | (24,732) | (220,114) | (7,374) | (252,220) |
| Net book amount | 29,266 | 52,131 | 8,107 | 89,504 |
| Year ended 30 June 2016 | | | | |
| Opening net book amount | 29,266 | 52,131 | 8,107 | 89,504 |
| Additions | --- | 24,322 | --- | 24,322 |
| Disposals | (5,002) | (2,047) | --- | (7,049) |
| Depreciation | (694) | (21,826) | (1,253) | (23,773) |
| Exchange differences | 205 | 2,884 | 228 | 3,317 |
| Closing net book amount | 23,775 | 55,464 | 7,082 | 86,321 |
| At 30 June 2016 | | | | |
| Cost | 44,173 | 282,585 | 15,867 | 342,625 |
| Accumulated depreciation and impairment | (20,398) | (227,121) | (8,785) | (256,304) |
| Net book amount | 23,775 | 55,464 | 7,082 | 86,321 |

Note 15. Non-current assets - Property, plant and equipment (continued)

| | Land and buildings | Furniture, fittings and equipment | Leased plant and equipment | Total |
|--|-----------------------------------|---|--|---------------|
| <i>Estimated useful lives</i> | <i>Buildings: 20-40 years</i> | <i>3-20 years</i> | <i>Shorter of lease term or 3-20 years</i> | |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Year ended 30 June 2017 | | | | |
| Opening net book amount | 23,775 | 55,464 | 7,082 | 86,321 |
| Additions | 119 | 13,093 | --- | 13,212 |
| Disposals | --- | (382) | --- | (382) |
| Disposal of discontinued operations (note 7) | --- | (2,393) | --- | (2,393) |
| Depreciation | (480) | (20,195) | (1,189) | (21,864) |
| Exchange differences | (199) | (1,469) | (66) | (1,734) |
| Closing net book amount | 23,215 | 44,118 | 5,827 | 73,160 |
| At 30 June 2017 | | | | |
| Cost | 44,053 | 274,284 | 15,776 | 334,113 |
| Accumulated depreciation and impairment | (20,838) | (230,166) | (9,949) | (260,953) |
| Net book amount | 23,215 | 44,118 | 5,827 | 73,160 |

Non-current assets pledged as security

Refer to note 13(a) for information on non-current assets pledged as security by the consolidated entity.

Note 16. Non-current assets - Intangible assets**Critical accounting estimates and judgments****Estimated impairment of goodwill and indefinite life intangibles**

The Group tests annually, or when indicators of impairment arise, whether goodwill and indefinite life intangibles have suffered any impairment and if any intangibles cease to have an indefinite life, in accordance with the accounting policy. The recoverable amounts of the cash-generating units (CGU's) have been determined based on value-in-use (VIU) or fair value less costs of disposal (FVLCD) calculations. These calculations require the use of estimates and judgements, in particular the achievement of forecast growth rates which are determined through a Board approved budgeting process.

Estimated impairment of Omni-Channel platform finite life intangibles

The Group tests, when indicators of impairment arise, whether finite life intangibles have suffered any impairment in accordance with the accounting policy as discussed below. Impairment tests are performed based on an assessment of whether the costs will be used by the Group to derive future economic benefits.

Goodwill

Goodwill represents the excess amount the Group has paid in acquiring a business over the fair value of the assets and liabilities acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is carried at cost less accumulated impairment expense and is considered as having an indefinite useful life. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

Gains or losses on the disposal of a CGU include the carrying amount of goodwill relating to the CGU sold.

Brands

Expenditure incurred in developing or enhancing brands is expensed as incurred. Brands are carried at cost less accumulated impairment expense. Brands have a limited legal life, however the Group monitors global expiry dates and renews registrations where required. Brands recorded in the financial statements are not currently associated with products which are likely to become commercially or technically obsolete. Accordingly, the Directors are of the view that brands have an indefinite life. Brands are considered annually for impairment and reversal of any previous impairment, and are held at cost less accumulated impairment expense.

Key factors taken into account in assessing the useful life of brands are:

- The brands are well established and protected by trademarks across the globe which are generally subject to an indefinite number of renewals upon appropriate application; and
- There are currently no legal, technical or commercial obsolescence factors applying to the brands or the products to which they attach which indicate that the life should be considered limited.

Key money

When the Group enters into leases in some locations, a payment is made to the incumbent tenant; these payments are referred to as key money. The original cost is capitalised, and classified as an indefinite life intangible asset and accounted for under the cost model. As a result of the restrictions on lessors' powers, and the right to renew leases held by the Group, the Directors are of the view that key money has an indefinite life. Key money is considered annually for impairment and reversal of any previous impairment, and is held at cost less accumulated impairment expense.

Note 16. Non-current assets - Intangible assets (continued)**Computer software and Omni-Channel platform**

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- The Group intends to complete the software and use it;
- There is an ability to use the software;
- It can be demonstrated how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use the software are available; and
- The expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use over their estimated contractual lives (three to five years). Acquired computer software and Omni-Channel platform licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated contractual lives (three to five years).

Amortisation expense

Amortisation expense has been included in other expenses in the income statement.

| | Goodwill | Brands | Key money | Finite life | Total |
|--|-------------------|-------------------|-------------------|------------------|-----------|
| <i>Estimated useful lives</i> | <i>Indefinite</i> | <i>Indefinite</i> | <i>Indefinite</i> | <i>3-5 years</i> | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| At 30 June 2015 | | | | | |
| Cost | 488,837 | 532,596 | 8,991 | 57,117 | 1,087,541 |
| Accumulated amortisation and impairment | (404,383) | (476,370) | (2,883) | (42,371) | (926,007) |
| Net book amount | 84,454 | 56,226 | 6,108 | 14,746 | 161,534 |
| Year ended 30 June 2016 | | | | | |
| Opening net book amount | 84,454 | 56,226 | 6,108 | 14,746 | 161,534 |
| Additions | --- | --- | --- | 1,053 | 1,053 |
| Work in progress | --- | --- | --- | 12,369 | 12,369 |
| Disposals | --- | --- | (93) | (1) | (94) |
| Disposal of Sector 9 | --- | (9,285) | --- | (17) | (9,302) |
| Amortisation | --- | --- | --- | (4,630) | (4,630) |
| Impairment expense | --- | (1,033) | --- | --- | (1,033) |
| Reversal of impairment expense | --- | 1,130 | --- | --- | 1,130 |
| Exchange differences | 3,066 | 1,397 | 98 | (553) | 4,008 |
| Closing net book amount | 87,520 | 48,435 | 6,113 | 22,967 | 165,035 |
| At 30 June 2016 | | | | | |
| Cost | 461,440 | 522,596 | 9,068 | 70,669 | 1,063,773 |
| Accumulated amortisation and impairment | (373,920) | (474,161) | (2,955) | (47,702) | (898,738) |
| Net book amount | 87,520 | 48,435 | 6,113 | 22,967 | 165,035 |
| | Goodwill | Brands | Key money | Finite life | Total |
| <i>Estimated useful lives</i> | <i>Indefinite</i> | <i>Indefinite</i> | <i>Indefinite</i> | <i>3-5 years</i> | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Year ended 30 June 2017 | | | | | |
| Opening net book amount | 87,520 | 48,435 | 6,113 | 22,967 | 165,035 |
| Additions | --- | --- | 116 | 1,946 | 2,062 |
| Work in progress | --- | --- | --- | 6,705 | 6,705 |
| Disposal of discontinued operations (note 7) | --- | (3,600) | --- | (35) | (3,635) |
| Amortisation | --- | --- | --- | (2,836) | (2,836) |
| Impairment expense | (86,201) | (8,002) | (570) | (11,677) | (106,450) |
| Exchange differences | (1,319) | (1,035) | (57) | (552) | (2,963) |
| Closing net book amount | --- | 35,798 | 5,602 | 16,518 | 57,918 |
| At 30 June 2017 | | | | | |
| Cost | 448,269 | 516,008 | 8,445 | 77,401 | 1,050,123 |
| Accumulated amortisation and impairment | (448,269) | (480,210) | (2,843) | (60,883) | (992,205) |
| Net book amount | --- | 35,798 | 5,602 | 16,518 | 57,918 |

Note 16. Non-current assets - Intangible assets (continued)

Market capitalisation deficiency

At 30 June 2017, the Group had a net asset position which represented a premium to the Group's 30 June 2017 market capitalisation.

This difference represents an indicator of impairment based on AASB 136. The Group prepared an impairment assessment based on valuing individual Cash Generating Units (CGUs) and using a Whole of Group Approach.

The individual CGU valuations resulted in a goodwill impairment charge totalling \$8.4 million in respect of Xcel and New Zealand which are detailed in note 16 (a).

The Whole of Group Approach was based on an EBITDA multiple that represents an approximate 10% premium to the Group's current EBITDA multiple implied by the 30 June 2017 share price, recognising that this still represents an approximate 23% discount to the Group's historical trading multiples.

In accordance with the requirements of AASB 136, the Whole of Group Approach resulted in a goodwill impairment charge totalling \$77.8 million in addition to the \$8.4 million goodwill impairment charge noted above.

In allocating the \$77.8 million impairment it was noted that the RVCA and Honolua CGUs, which included goodwill, were not impaired under the relevant CGU valuation method and that the need to take an impairment charge in respect of the goodwill attributed to these CGUs was exclusively driven by the Whole of Group Approach.

In terms of sensitivity on the Whole of Group Approach, if only EBITDA decreased by 10%, this would reduce the Whole of Group valuation by approximately \$30 million. If only the multiple applied decreased by 1 times, this would reduce the Whole of Group valuation by \$51 million.

(a) Impairment tests for goodwill and brands

Goodwill is allocated to the Group's cash-generating units for the purpose of impairment testing and identified according to brands acquired or geographical regions where operations existed at the time goodwill arose. Brands are allocated to the Group's cash-generating units identified according to individual brands.

The recoverable amount of a CGU is firstly determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets with anticipated growth rates approved by the Board of Directors covering a four year period and include a terminal value based upon maintainable cash flows.

If the VIU of a CGU is lower than its carrying amount, then the CGU's fair value less costs of disposal is determined as AASB 136 requires the recoverable amount of a CGU to be the higher of VIU and FVLCD. In applying the FVLCD approach, the recoverable amount of a CGU is assessed using market based valuation techniques such as discounted cash flow analysis, comparable transactions and observable trading multiples.

Carrying value

| | Goodwill | | Brands | |
|-------------|----------------|----------------|----------------|----------------|
| | 2017 \$'000 | 2016 \$'000 | 2017 \$'000 | 2016 \$'000 |
| Von Zipper | --- | --- | --- | 1,187 |
| Kustom | --- | --- | 3,852 | 7,752 |
| Honolua | --- | 518 | 4,385 | 4,385 |
| Xcel | --- | 4,376 | 1,560 | 4,579 |
| Tigerlily | --- | --- | --- | 3,600 |
| RVCA | --- | 78,131 | 26,001 | 26,932 |
| New Zealand | --- | 4,495 | --- | --- |
| | --- | 87,520 | 35,798 | 48,435 |

As at 30 June 2017 and 2016, all of the above CGUs were tested for impairment in accordance with AASB 136.

2017

The Group experienced declines in sales and profitability for the Von Zipper brand and in New Zealand and as a result impairment expense was recognised in the year ended 30 June 2017 for both of these CGU's.

The Group experienced declines in sales and profitability for the Xcel brand and also changed the EBITDA multiple assumption in the FVLCD calculation and as a result impairment expense was recognised in the year ended 30 June 2017.

The Group experienced relatively consistent profitability results for the Kustom brand when compared to the prior year but due to the change in EBITDA multiple assumption in the FVLCD calculation, impairment expense was required to be recognised in the year ended 30 June 2017. However, ultimately the recoverable amount of the CGU was higher under the VIU calculation when compared to the FVLCD calculation and therefore impairment expense was recognised using the VIU calculation.

Refer to the market capitalisation deficiency section above in relation to the RVCA and Honolua impairment considerations.

2016

The Group experienced declines in sales and profitability for the Kustom brand and as a result impairment expense was recognised in the year ended 30 June 2016. The Group has experienced improvements in sales and profitability for the Tigerlily brand since the original impairment expense was recognised in the year ended 30 June 2013 and as a result a reversal in impairment expense was recognised in the year ended 30 June 2016.

Note 16. Non-current assets - Intangible assets (continued)**(a) Impairment tests for goodwill and brands (continued)****Impairment expense / (reversal of impairment expense)**

| | Goodwill | | Brands | |
|-------------|----------------|----------------|----------------|----------------|
| | 2017 \$'000 | 2016 \$'000 | 2017 \$'000 | 2016 \$'000 |
| Von Zipper | --- | --- | 1,187 | --- |
| Kustom | --- | --- | 3,900 | 1,033 |
| Xcel | 3,940 | --- | 2,915 | --- |
| Tigerlily | --- | --- | --- | (1,130) |
| New Zealand | 4,508 | --- | --- | --- |
| Honolua | 510 | --- | --- | --- |
| RVCA | 77,243 | --- | --- | --- |
| | 86,201 | --- | 8,002 | (97) |

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

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

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

Growth rates used were generally determined by factors such as industry sector, the market to which the CGU is dedicated, the size of the CGU, current reduced levels of profitability in some CGU's, geographic location, past performance and the maturity and establishment of the brand or region.

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

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

EBITDA projections for brand CGUs are discounted using a pre-tax discount rate range between 15.1% and 16.3% (2016: 15.1% and 16.3%) for brand intangibles and their associated goodwill.

EBITDA projections for regional CGUs with allocated goodwill are discounted using a pre-tax discount rate of 14.5% (2016: 14.5%).

The following CGUs are disclosed when a reasonable change in key assumptions may lead to an impairment charge under VIU:

30 June 2017

| | Average EBITDA Growth Rate FY17- FY21* | Headroom** | Discount rate | Impact on headroom of +0.5% change in discount rate | Terminal growth rate | Impact on headroom of -0.5% change in terminal growth rate | Impact on headroom of -10% change in EBITDA |
|--------|---|------------|------------------|---|----------------------------|--|---|
| | % | \$'m | % | \$'m | % | \$'m | \$'m |
| Kustom | 2.2 | --- | 16.3 | (0.3) | 2.5 | (0.2) | (1.2) |

The below 30 June 2016 key assumptions and sensitivities were based on the four year business plan at that point in time:

30 June 2016

| | Average EBITDA Growth Rate FY16- FY20* | Headroom** | Discount rate | Impact on headroom of +0.5% change in discount rate | Terminal growth rate | Impact on headroom of -0.5% change in terminal growth rate | Impact on headroom of -10% change in EBITDA |
|-------------|---|------------|------------------|---|----------------------------|--|---|
| | % | \$'m | % | \$'m | % | \$'m | \$'m |
| Von Zipper | 97.4 | 2.8 | 15.8 | (0.5) | 2.5 | (0.4) | (1.2) |
| Tigerlily | 21.1 | 16.3 | 15.8 | (1.1) | 2.5 | (0.8) | (2.5) |
| RVCA | 26.1 | 51.6 | 15.8 | (7.0) | 2.5 | (5.3) | (22.8) |
| New Zealand | 17.7 | 4.9 | 14.5 | (1.0) | 2.5 | (0.7) | (4.4) |

* Growth rates impacted by relatively small absolute change from a low initial EBITDA amount.

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

Note 16. Non-current assets - Intangible assets (continued)**(c) Key assumptions used for fair value less costs of disposal calculations**

The recoverable amounts of the CGU's in the table below have been determined using fair value less costs of disposal. In applying the FVLCD approach, the recoverable amount of a CGU is assessed using market based valuation techniques such as comparable transactions and observable trading multiples. The CGU's headroom amounts are sensitive to movements in both EBITDA and multiple (due to EBITDA being an unobservable input the fair value is considered to be a level 3 fair value valuation technique). EBITDA includes certain allocations of Group costs. The following CGUs are disclosed when a reasonable change in key assumptions may lead to an impairment charge under FVLCD:

| 30 June 2017 | Multiple | Headroom* \$'m | Impact on headroom of -10% change in EBITDA \$'m | Impact on headroom of a -1 times change in multiple \$'m |
|--------------|----------|-------------------|--|--|
| Xcel | 4.0 | --- | (0.6) | (1.6) |

| 30 June 2016 | Multiple | Headroom* \$'m | Impact on headroom of -10% change in EBITDA \$'m | Impact on headroom of a -1 times change in multiple \$'m |
|--------------|----------|-------------------|--|--|
| Kustom | 7.0 | --- | (1.0) | (1.6) |
| Honolua | 7.0 | 0.1 | (0.9) | (1.3) |
| Xcel | 7.0 | 4.9 | (1.8) | (2.8) |

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

The EBITDA multiple that could be achieved for a brand divestment was reassessed during the year ended 30 June 2017 and a 4 times multiple was deemed appropriate for the smaller emerging brands subject to FVLCD calculations.

(d) Sensitivity

The estimates and judgments included in the calculations (including the four year projected business plan period and terminal value) are based on historical experience and other factors, including management's and the Board's expectations of future events that are believed to be reasonable under the current circumstances.

The inherent nature of projected results means that, by definition, the resulting accounting estimates will seldom equal the related actual results. The recoverable amount is particularly sensitive to key assumptions including, EBITDAI growth, the long term growth rate and multiples. As a result the Group has conducted a range of sensitivities on the recoverable amount (refer to the tables above).

Management and the Board believe that other reasonable changes in key assumptions on which recoverable amounts have been calculated, would not cause the Group's carrying amounts for goodwill and brands to exceed their recoverable amounts. The Group has and continues to undertake a range of strategic initiatives to deliver the EBITDAI growth included in the four year 2018 to 2021 business plan.

(e) Impairment of key money

The Group recognised an impairment charge in relation to key money for two retail stores as indicators of impairment had arisen during the year ended 30 June 2017 and the 'expected recoverable amount' of the asset was determined to be below the carrying amount.

(f) Impairment of Omni-Channel platform finite life intangibles

The Group recognised an impairment charge of \$11.7 million in related to the implementation of the Omni-Channel platform, which represents costs incurred to 30 June 2017 to build the system as originally designed. The original project plan for the Omni-Channel project was to utilise a single source integrated global commerce platform to align the diverse set of tools, data and systems across the Group. The revised project plan for the Omni-Channel project aims to utilise multiple out of the box 'best in breed' global platforms to align the diverse set of tools, data and systems across the Group. Instead of a single suite system, multiple systems each with specialised functions will be utilised to provide a seamless Omni-Channel experience for the Group's customers.

Management performed a detailed assessment of all costs incurred to determine whether the costs incurred are discrete and usable on their own or are re-useable under the 'best in breed' approach and if so remain on the balance sheet. If the costs were not reusable, they were included in the impairment charge as they will not be used by the Group to derive future economic benefits.

Note 17. Current and non-current assets - Other

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Current | | |
| Prepayments | 18,125 | 16,144 |
| Non-current | | |
| Other receivables | 7,351 | 7,792 |
| Prepayments | 2,373 | 2,590 |
| Prepaid borrowing costs for facilities not drawn at 30 June | 2,358 | 2,344 |
| | <u>12,082</u> | <u>12,726</u> |

Other receivables predominantly relate to store lease deposits.

(a) Impaired receivables and receivables past due

None of the non-current receivables are impaired (2016: Nil) and none of the non-current receivables are considered past due but not impaired (2016: Nil).

Note 18. Non-current liabilities - Other payables

| | 2017 \$'000 | 2016 \$'000 |
|--------------------------------|----------------|----------------|
| Straight line lease adjustment | 7,214 | 8,884 |
| Other | 189 | 357 |
| | <u>7,403</u> | <u>9,241</u> |

Note 19. Current and non-current liabilities - Provisions

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

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

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

Employee benefits**Profit-sharing and short-term incentive plans**

The Group recognises a liability and an expense for short-term incentives and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where a payment is contractually obliged or where there is a past practice that has created a constructive obligation.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Onerous lease and restructuring provisions

The Group identified a number of loss making or underperforming stores in its portfolio and closed or intended to close these stores by either early termination or trading the stores to expiry. A provision has been raised for the negotiated and estimated settlement costs of terminating the leases early or the minimum unavoidable costs of trading the stores to lease expiry.

Make-good provision

Make-good costs arising from contractual obligations in lease agreements are recognised as provisions at the inception of the agreement. A corresponding asset is taken up in property, plant and equipment at that time. Expected future payments are discounted using appropriate market yields at reporting date.

Note 19. Current and non-current liabilities – Provisions (continued)

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Provisions | | |
| Current | | |
| Employee benefits | 10,723 | 12,320 |
| Onerous lease and restructuring provisions (note (a)) | 2,019 | 2,716 |
| Make-good provisions (note (a)) | 1,418 | 1,108 |
| | <u>14,160</u> | <u>16,144</u> |
| Non-current | | |
| Employee benefits | 2,176 | 7,722 |
| Onerous lease and restructuring provisions (note (a)) | 428 | 742 |
| Make-good provisions (note (a)) | 2,270 | 3,113 |
| | <u>4,874</u> | <u>11,577</u> |

(a) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits provision, are set out below:

| 2017 | Onerous lease and restructuring provisions | | Make-good provisions | |
|--|--|-----------------------|----------------------|-----------------------|
| | Current \$'000 | Non-current \$'000 | Current \$'000 | Non-current \$'000 |
| Opening balance at 1 July | 2,716 | 742 | 1,108 | 3,113 |
| Additional provisions recognised | 2,334 | 317 | 250 | 17 |
| Unused amounts reversed | (249) | --- | (190) | (189) |
| Amounts used during the year | (3,382) | --- | (221) | (69) |
| Reclassification from non-current to current | 628 | (628) | 485 | (485) |
| Exchange differences | (28) | (3) | (14) | (117) |
| Closing balance at 30 June | <u>2,019</u> | <u>428</u> | <u>1,418</u> | <u>2,270</u> |

Capital structure and risk management**Note 20. Contributed equity****Ordinary shares**

Ordinary shares are classified as equity. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Other equity securities

The amount shown for other equity securities is the value of the option premium recorded in prior periods which have expired.

Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

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

| Movements in ordinary share capital | 2017 Shares '000 | 2017 \$'000 | 2016 Shares '000 | 2016 \$'000 |
|-------------------------------------|-----------------------------------|------------------|------------------------|------------------|
| | <i>Fully paid ordinary shares</i> | | | |
| Opening balance at 1 July | 198,079 | 1,091,323 | 990,370 | 1,091,323 |
| Share consolidation | --- | --- | (792,291) | --- |
| Closing balance at 30 June | <u>198,079</u> | <u>1,091,323</u> | <u>198,079</u> | <u>1,091,323</u> |
| Other equity securities | --- | 2,951 | --- | 2,951 |
| Total contributed equity | <u>198,079</u> | <u>1,094,274</u> | <u>198,079</u> | <u>1,094,274</u> |

Note 20. Contributed equity (continued)

Unissued ordinary shares of the Company under option as at 30 June 2017 are set out in the below table.

| | | Number | Grant date | Issue price of shares | Expiry date |
|--------------------------------------|-------|-----------|------------------|-----------------------|------------------|
| Refinancing proposal - Altamont | BBGAO | 8,451,958 | 16 July 2013 | \$2.50 | 16 July 2020 |
| Refinancing proposal - C/O Placement | BBGAQ | 5,916,371 | 3 December 2013 | \$2.50 | 3 December 2020 |
| Executive Option Plan | BBGAS | 240,000 | 31 January 2014 | \$3.00 | 31 January 2024 |
| Market Priced Options ^ | BBGAU | 3,333,600 | 30 November 2016 | \$1.23 | 30 November 2020 |
| Premium Priced Options ^ | BBGAW | 5,375,000 | 30 November 2016 | \$1.85 | 30 November 2020 |

^ Refer to note 31.

Note 21. Treasury shares, reserves and retained losses**(a) Treasury shares**

Treasury shares are shares in Billabong International Limited that are held by the Billabong Executive Performance Share Plan - Australia trust and the Billabong Executive Performance Share Plan - International trust for the purpose of issuing shares under the Group's Executive Long-Term Incentive Plan and Short-Term Incentive deferral scheme (note 31). Expenses are in relation to administration costs of the trusts and are recorded in the income statement as incurred.

| Movements in treasury shares | 2017 | 2017 | 2016 | 2016 |
|---|-------------|----------|-------------|----------|
| | Shares '000 | \$'000 | Shares '000 | \$'000 |
| Opening balance at 1 July | (408) | (20,431) | (2,485) | (20,959) |
| Employee share scheme issue | 36 | 99 | 444 | 210 |
| Deferred tax credit recognised directly in equity | --- | 30 | --- | 318 |
| Share consolidation | --- | --- | 1,633 | --- |
| Closing balance at 30 June | (372) | (20,302) | (408) | (20,431) |

(b) Reserves**Option reserve**

The option reserve is used to recognise:

- The grant date fair value of options issued but not exercised;
- The grant date fair value of shares issued to employees; and
- The issue of shares held by the Billabong Executive Performance Share Plan - Australia trust and the Billabong Executive Performance Share Plan - International trust to employees.

Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve.

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

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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income.

When a foreign operation is sold, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

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

Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expenses. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

The foreign exchange gain of \$6.1 million (2016: loss of \$3.7 million) on translation of inter-company loans to AUD at reporting date is transferred to the foreign currency translation reserve, in equity. There was no ineffectiveness to be recorded from net investments in foreign entity hedges.

Note 21. Treasury shares, reserves and retained losses (continued)**(b) Reserves (continued)****Cash flow hedge reserve**

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 22. Amounts are recognised in the income statement when the associated hedged transaction affects profit and loss.

| Movements in reserves | 2017 \$'000 | 2016 \$'000 |
|---|------------------------|------------------|
| <i>Option reserve</i> | | |
| Opening balance at 1 July | 12,069 | 10,664 |
| Share-based payment expense | 514 | 1,615 |
| Employee share scheme issue | (99) | (210) |
| Closing balance at 30 June | <u>12,484</u> | <u>12,069</u> |
| <i>Foreign currency translation reserve</i> | | |
| Opening balance at 1 July | (101,454) | (105,682) |
| Net investment hedge | 6,051 | (3,727) |
| Foreign currency translation reserve reclassified to income statement | 335 | 225 |
| Currency translation differences arising during the year | (9,670) | 7,730 |
| Closing balance at 30 June | <u>(104,738)</u> | <u>(101,454)</u> |
| <i>Cash flow hedge reserve</i> | | |
| Opening balance at 1 July | (4,293) | 424 |
| Revaluation - gross | (4,073) | (3,244) |
| Deferred tax | 1,295 | 1,086 |
| Transfer to inventory - gross | 3,124 | (3,806) |
| Deferred tax | (933) | 1,328 |
| Transfer to net profit - gross | 744 | --- |
| Foreign exchange impacts | 2,066 | (81) |
| Closing balance at 30 June | <u>(2,070)</u> | <u>(4,293)</u> |
| <i>Total reserves</i> | <u>(94,324)</u> | <u>(93,678)</u> |

(c) Retained losses

| Movements in retained losses | 2017 \$'000 | Restated 2016 \$'000 |
|-------------------------------------|------------------------|----------------------------|
| Opening balance at 1 July * | (727,275) | (703,536) |
| Net loss for the year | (77,129) | (23,739) |
| Dividends (note 14) | --- | --- |
| Closing balance at 30 June | <u>(804,404)</u> | <u>(727,275)</u> |

* Refer to the working capital section (a) correction of prior period error on page 52.

Note 22. Derivative financial instruments

The Group uses derivative financial instruments to hedge certain risk exposures, in particular foreign exchange risks. Derivatives are used exclusively for hedging purposes and not for trading or speculative purposes.

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

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

| Type of hedge held by the Group | Cash flow hedge |
|---------------------------------|--|
| Definition | A derivative or financial instrument to hedge the exposure to variability in cash flows attributable to a particular risk associated with an asset, liability or forecast transaction. |
| Recognition date | The date the instrument is entered into |
| Measurement | Measured at fair value |
| Changes in fair value | <p>The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expenses.</p> <p>Amounts accumulated in equity are reclassified in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory.</p> <p>When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.</p> |

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Current assets | | |
| Forward foreign exchange contracts - cash flow hedges | 190 | 440 |
| Current liabilities | | |
| Forward foreign exchange contracts - cash flow hedges | 4,362 | 3,673 |
| Net derivative financial instrument liabilities | (4,172) | (3,233) |

Note 22. Derivative financial instruments (continued)**(a) Instruments used by the Group****Forward exchange contracts - cash flow hedges for product purchases**

From time to time and in order to protect against exchange rate movements, the Group enters into forward exchange contracts to purchase USD and AUD. The contracts are hedging highly probable forecast purchases for the upcoming season and are timed to mature when major shipments of inventory are scheduled to arrive. The cash flows are expected to occur at various dates within one year from the balance date. At balance date, the details of outstanding contracts are noted in the following table.

| | Buy USD | |
|----------------------|------------------|------------------|
| | 2017 US\$'000 | 2016 US\$'000 |
| 0 - 6 Months | | |
| Sell EUR | 21,000 | 27,000 |
| Sell AUD | 22,300 | 34,700 |
| Sell CAD | 3,210 | 700 |
| Sell JPY | 521 | 3,400 |
| Sell ZAR | 1,655 | 1,835 |
| Sell NZD | 300 | 330 |
| 6 - 12 Months | | |
| Sell EUR | 9,000 | 5,000 |
| Sell AUD | --- | 15,200 |
| Sell JPY | 2,200 | 3,400 |
| Sell NZD | --- | 260 |
| Sell CAD | 3,530 | --- |
| | | |
| | Buy AUD | |
| | 2017 AU\$'000 | 2016 AU\$'000 |
| 0 - 6 Months | | |
| Sell NZD | 3,525 | 3,950 |
| 6 - 12 Months | | |
| Sell NZD | --- | 3,450 |

Amounts disclosed above represent currency acquired, measured at the contracted rate.

(b) Credit risk

Credit risk represents the loss that would be recognised if a counterparty failed to perform as contracted. Credit risk arises from derivative financial instruments and committed transactions.

The Group has no significant concentrations of credit risk.

Credit risk management

Credit risk from balance held with financial institutions is managed by the Group in accordance with the procedures outlined in the Group policy. Derivative counterparties are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

(c) Liquidity risk

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

Gross settled derivatives: forward exchange contracts

| | Less than 6 months \$'000 | 6-12 months \$'000 | 1-2 years \$'000 | 2-5 years \$'000 | Over 5 years \$'000 | Total contractual cash flows \$'000 | Carrying amount (assets) / liabilities \$'000 |
|-------------|---------------------------------|--------------------------|---------------------|---------------------|---------------------------|--|---|
| 2017 | | | | | | | |
| (inflow) | (67,210) | (19,150) | --- | --- | --- | (86,360) | --- |
| outflow | 70,344 | 19,911 | --- | --- | --- | 90,255 | 4,172 |
| | 3,134 | 761 | --- | --- | --- | 3,895 | 4,172 |
| 2016 | | | | | | | |
| (inflow) | (95,473) | (35,580) | --- | --- | --- | (131,053) | --- |
| outflow | 98,443 | 35,973 | --- | --- | --- | 134,416 | 3,233 |
| | 2,970 | 393 | --- | --- | --- | 3,363 | 3,233 |

Note 23. Financial risk management

The Group's activities expose it to a variety of financial risks including credit risk, market risk (e.g. cash flow interest rate risk and foreign exchange risk), and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Further information is included in the following notes:

| | |
|------------------------------|---|
| Credit risk | Note 8 - Current assets - Trade and other receivables Note 11 - Current assets - Cash and cash equivalents Note 22 - Derivative financial instruments |
| Cash flow interest rate risk | Note 13 - Current and non-current liabilities - Borrowings |
| Liquidity risk | Note 13 - Current and non-current liabilities - Borrowings Note 22 - Derivative financial instruments |
| Foreign exchange risk | Refer to (a) below |

(a) Foreign exchange risk**Foreign exchange transactions**

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

Transactions in foreign currencies are translated into the functional currency of the entity using exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year end are translated to the functional currency at the year end spot rate. Foreign exchange gains and losses arising from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges, net investment hedges, or are attributable to part of the net investment in a foreign operation.

Foreign exchange risk

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

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

Whilst the Group's principal borrowing facility is a USD denominated term loan, this in itself does not create an income statement foreign exchange risk as at 30 June specifically. It does however create volatility in credit ratios as it is subject to translation at the year end spot rate at balance date. During the year the Group had renegotiated the basis of the covenant calculation in the term loan so as to reduce the volatility by aligning the exchange rates used in converting into Australian Dollars both the debt (of the covenant calculation) and the Americas EBITDAI contribution.

Foreign exchange risk management

Forward contracts are used to manage foreign exchange risk on inventory purchases. The Group's Risk Management Policy is for each region to hedge greater than 80% of forecast foreign denominated inventory purchases for the upcoming season. Further hedges can be executed following receipt of customer orders. All hedges of projected purchases qualify as 'highly probable' forecast transactions for hedge accounting purposes. The Group has, as outlined in note 22, forward exchange contracts designated as cash flow hedges.

Note 23. Financial risk management (continued)**(a) Foreign exchange risk (continued)**

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

| | Notes | 2017 \$'000 | Restated 2016 \$'000 |
|------------------------------|-------|------------------|----------------------------|
| Australian Dollars | | | |
| Cash and cash equivalents | 11 | 17,562 | 13,335 |
| Trade and other receivables | 8, 17 | 17,126 | 21,960 |
| Borrowings | 13 | --- | (4) |
| Trade and other payables | 10 | (22,590) | (19,232) |
| | | <u>12,098</u> | <u>16,059</u> |
| United States Dollars | | | |
| Cash and cash equivalents | 11 | 31,470 | 51,792 |
| Trade and other receivables | 8, 17 | 78,290 | 82,070 |
| Borrowings | 13 | (216,547) | (265,588) |
| Trade and other payables * | 10 | (84,706) | (105,999) |
| | | <u>(191,493)</u> | <u>(237,725)</u> |
| Euro | | | |
| Cash and cash equivalents | 11 | 4,643 | 6,951 |
| Trade and other receivables | 8, 17 | 31,105 | 24,743 |
| Borrowings | 13 | (814) | (2,291) |
| Trade and other payables | 10 | (18,807) | (17,732) |
| | | <u>16,127</u> | <u>11,671</u> |
| Other | | | |
| Cash and cash equivalents | 11 | 18,064 | 17,093 |
| Trade and other receivables | 8, 17 | 50,155 | 50,663 |
| Borrowings | 13 | (2,960) | (6,494) |
| Trade and other payables | 10 | (20,603) | (26,802) |
| | | <u>44,656</u> | <u>34,460</u> |

* Refer to the working capital section (a) correction of prior period error on page 52.

Sensitivity analysis

The majority of the carrying amounts of the Group's financial assets and liabilities are denominated in the functional currency of the relevant subsidiary and thus there is no foreign exchange exposure.

The majority of foreign exchange exposure as at 30 June 2017 relates to USD denominated assets and liabilities in non-USD functional currency subsidiaries and the exposure at balance date which is recognised in the consolidated income statement as unrealised foreign exchange gains or losses. This is because the monetary item represents a commitment to convert one currency into another and exposes the Group to a gain or loss through currency fluctuations.

The below table does not represent the foreign exchange exposure as at 30 June 2017 on the term loan as the term loan is USD denominated debt borrowed by a USD functional currency subsidiary.

As shown in the table above, the Group is exposed to foreign exchange risk primarily with respect to United States Dollars. Refer to table below:

| | Increase/(decrease) on post tax profit | | Increase/(decrease) on other components of equity | |
|---|--|----------------|---|----------------|
| | 2017 \$'000 | 2016 \$'000 | 2017 \$'000 | 2016 \$'000 |
| USD/AUD exchange rate weakened 10%* | 30 | 1,289 | 4,495 | 10,392 |
| USD/AUD exchange rate strengthened 10%* | (37) | (1,576) | (4,271) | (10,135) |

* Holding all other variables constant

The Group is in a net USD asset position at 30 June 2017 for USD denominated assets and liabilities in non-USD functional currency subsidiaries compared to a net USD liability position at 30 June 2016. This change has impacted the profit sensitivities above. The change from liability to an asset position is primarily due to a reduction in USD payables held in non-USD functional currency subsidiaries.

The Group's exposure to other foreign exchange movements as at 30 June 2017 is not material.

Note 24. Fair value measurements

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

| Financial asset and liability | Fair value approach |
|---|---|
| <ul style="list-style-type: none"> - Cash - Current trade and other receivables - Trade and other payables | Carrying value approximates fair value due to short term nature of the assets and liabilities. |
| <ul style="list-style-type: none"> - Borrowings | <p>Fair value of borrowings is based upon market prices where a market exists or by discounting the expected future cash flows by the current market interest rate that is adjusted for own credit risk.</p> <p>For borrowings other than the term loan facility, the fair values are not materially different to their carrying amounts since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.</p> |
| <ul style="list-style-type: none"> - Non-current other receivables | For the majority of the non-current receivables, the fair values are not significantly different to their carrying amounts as the balance outstanding approximate the amounts expected to be collected. |

The Group has a number of financial instruments which are not measured at fair value in the balance sheet. For the majority of these instruments, the fair values approximate their carrying amounts. Differences between the carrying amount and fair value were identified for the following instruments at 30 June:

| | Notes | Carrying amount | | Fair value | |
|---|-------|-----------------|----------------|----------------|----------------|
| | | 2017 \$'000 | 2016 \$'000 | 2017 \$'000 | 2016 \$'000 |
| Lease liabilities (current and non-current) | 13 | 1,247 | 2,928 | 1,229 | 2,827 |
| Term loan facility | 13 | 216,114 | 264,956 | 223,876 | 271,660 |

In regards to the term loan facility the difference between the carrying amount and the fair value amount above is the prepaid borrowing costs.

The Group has no reason to believe that the terms and conditions on borrowings represent anything other than fair value.

The fair values are classified as level 3 fair values due to the use of unobservable inputs, including own credit risk. Refer to (a) below.

(a) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the Australian Accounting Standards.

Level 1

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1. The Group did not hold any of these financial instruments at 30 June 2017 or 30 June 2016.

Level 2

The fair value of financial instruments that are not traded in an active market (for example, forward exchange contracts) are determined using valuation techniques. These instruments are included in level 2 and are comprised of derivative financial instruments. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. The valuation of foreign currency forward contracts is based upon the forward rate applicable at valuation date (available from dealer quotes for similar instruments or the counterparty of the forward contract). The future cash flow is then discounted back at the risk-free rate applying at that time. The derivative financial instruments in note 22 were recognised at fair value using level 2 valuation method.

Level 3

In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

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

Note 25. Lease commitments**Operating leases**

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

Finance leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding lease liability. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Subsequent to initial recognition, the asset is depreciated over the shorter of the asset's useful life and the lease term, unless it is reasonably certain that ownership will be obtained by the end of the lease term where it is depreciated over the period of the expected use which is the useful life of the asset.

(a) Lease commitments

| | 2017 | 2016 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 66,248 | 67,356 |
| Later than one year but not later than five years | 120,716 | 134,327 |
| Later than five years | 14,463 | 13,125 |
| | <u>201,427</u> | <u>214,808</u> |
| Representing: | | |
| Non-cancellable operating leases | 201,327 | 214,575 |
| Future finance charges on finance leases | 100 | 233 |
| | <u>201,427</u> | <u>214,808</u> |

(i) Operating leases

The Group leases various retail stores, offices and warehouses under non-cancellable operating leases. The leases have varying terms, escalating clauses and renewal rights. On renewal, the terms of the leases are renegotiated. In some instances early termination of these operating leases is possible with negotiation with the relevant landlord through payment of an agreed amount.

| | 2017 | 2016 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | 66,148 | 67,223 |
| Later than one year but not later than five years | 120,716 | 134,227 |
| Later than five years | 14,463 | 13,125 |
| | <u>201,327</u> | <u>214,575</u> |

(ii) Finance leases

The Group leases various plant and equipment with a carrying amount of \$5.8 million (2016: \$7.1 million).

| | 2017 | 2016 |
|---|---------------|--------------|
| | \$'000 | \$'000 |
| Commitments in relation to finance leases are payable as follows: | | |
| Within one year | 1,347 | 1,808 |
| Later than one year but not later than five years | --- | 1,353 |
| Minimum lease payments | <u>1,347</u> | <u>3,161</u> |
| Future finance charges | (100) | (233) |
| Total lease liabilities recognised as a liability | <u>1,247</u> | <u>2,928</u> |
| Representing lease liabilities: | | |
| Current (note 13) | 1,247 | 1,675 |
| Non-current (note 13) | --- | 1,253 |
| | <u>1,247</u> | <u>2,928</u> |
| The present value of finance lease liabilities is as follows: | | |
| Within one year | 1,247 | 1,675 |
| Later than one year but not later than five years | --- | 1,253 |
| Minimum lease payments | <u>1,247</u> | <u>2,928</u> |

Group structure

Note 26. Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Billabong International Limited (the Company or parent entity) as at 30 June 2017 and the results of all subsidiaries for the year then ended.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

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

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

The consolidated financial statements incorporate the assets, liabilities and results of the following significant subsidiaries in accordance with the accounting policy:

| Name of entity | | Country of incorporation | Class of shares | Equity holding ** | |
|---|---|--------------------------|-----------------|-------------------|--------|
| | | | | 2017 % | 2016 % |
| Amazon (New Zealand) Pty Ltd | * | Australia | Ordinary | 100 | 100 |
| Beach Culture International Pty Ltd | | Australia | Ordinary | 100 | 100 |
| Board Sports Retail Pty Ltd | | Australia | Ordinary | 100 | 100 |
| Burleigh Point, Ltd | | USA | Ordinary | 100 | 100 |
| GSM (Canada) Pty Ltd | * | Australia | Ordinary | 100 | 100 |
| BBG Asia Pty Ltd | * | Australia | Ordinary | 100 | 100 |
| GSM (Duranbah) Pty Ltd | | Australia | Ordinary | 100 | 100 |
| GSM (Europe) Pty Ltd | * | Australia | Ordinary | 100 | 100 |
| GSM (Japan) Limited | | Japan | Ordinary | 100 | 100 |
| GSM (NZ Operations) Limited | | New Zealand | Ordinary | 100 | 100 |
| GSM (Operations) Pty Ltd | * | Australia | Ordinary | 100 | 100 |
| GSM (Trademarks) Pty Ltd | | Australia | Ordinary | 100 | 100 |
| GSM Trading (South Africa) Pty Ltd | | Australia | Ordinary | 100 | 100 |
| GSM Brasil Ltda | | Brazil | Ordinary | 100 | 100 |
| GSM England Retail Ltd | | England | Ordinary | 100 | 100 |
| GSM Espana Operations Sociedad Limitada | | Spain | Ordinary | 100 | 100 |
| GSM Retail Inc | | USA | Ordinary | 100 | 100 |
| GSM Rocket Australia Pty Ltd | * | Australia | Ordinary | 100 | 100 |
| GSM Trading (Singapore) Pty Ltd | | Australia | Ordinary | 100 | 100 |
| Pineapple Trademarks Pty Ltd | * | Australia | Ordinary | 100 | 100 |
| Rocket Trademarks Pty Ltd | | Australia | Ordinary | 100 | 100 |
| Seal Trademarks Pty Ltd | * | Australia | Ordinary | 100 | 100 |
| GSM (Operations) No. 1 Pty Ltd | | Australia | Ordinary | 100 | 100 |

* These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785. For further information refer to note 28.

** The proportion of ownership interest is equal to the proportion of voting power held.

Note 27. Related party transactions

(a) Parent entities

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

(b) Subsidiaries

Interests in subsidiaries are set out in note 26.

Note 27. Related party transactions (continued)**(c) Key management personnel compensation**

| | 2017 \$ | 2016 \$ |
|--|------------------|------------------|
| Short-term employee benefits | 4,958,193 | 4,953,220 |
| Long-term employee benefits - long service leave | 19,682 | 20,125 |
| Termination benefits | --- | 2,621 |
| Post-employment benefits | 109,249 | 112,365 |
| Share-based payments | 554,558 | 678,609 |
| | <u>5,641,682</u> | <u>5,766,940</u> |

Detailed remuneration disclosures are provided in the Remuneration Report.

(d) Transactions with other related parties

In addition to the interest paid (refer to (f) below) the following transactions occurred with other related parties:

| | 2017 \$ | 2016 \$ |
|---|------------|------------|
| <i>Expense reimbursement</i> | | |
| Oaktree Capital Management, L.P | --- | 8,504 |
| Centerbridge Partners, L.P | 573,642 | 127,110 |
| <i>Renegotiation fee capitalised as prepaid borrowing costs</i> | | |
| Oaktree Capital Management, L.P | 2,097,502 | --- |
| Centerbridge Partners, L.P | 2,097,502 | --- |
| <i>Prepayment fee</i> | | |
| Oaktree Capital Management, L.P | 824,933 | --- |
| Centerbridge Partners, L.P | 824,933 | --- |
| <i>Non-Executive Director remuneration</i> | | |
| Oaktree Capital Management, L.P | --- | 18,521 |

Since 30 June 2016, the Group agreed with Centerbridge Partners, L.P and Oaktree Capital Management, L.P various amendments to the Group's senior secured term loan facility. Those amendments included certain relaxations of the Group's financial undertakings under the facility, and on the restrictions on the Group's use of proceeds from asset sales. The Group paid \$4.2 million in fees to Centerbridge Partners, L.P and Oaktree Capital Management, L.P in return for certain of those amendments.

Effective onwards from the financial year ended 30 June 2016, Jason Mozingo waived his board fees as his board duties are part of his responsibilities as a Senior Managing Director at Centerbridge Partners, L.P.

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

| | 2017 \$ | 2016 \$ |
|--------------------------------------|------------|------------|
| <i>Expense reimbursement payable</i> | | |
| Centerbridge Partners, L.P | 367,426 | 9,484 |

Note 27. Related party transactions (continued)**(f) Loans from related parties**

| <i>Oaktree Capital Management, L.P</i> | 2017 | 2016 |
|--|--------------------|--------------------|
| | \$ | \$ |
| Opening balance at 1 July | 135,830,084 | 132,656,250 |
| Loan repayments | (27,377,977) | (5,584,134) |
| Interest charged | 15,717,795 | 16,980,684 |
| Interest paid in cash | (7,813,056) | (12,783,738) |
| Exchange differences | (4,418,966) | 4,561,022 |
| Closing balance at 30 June | <u>111,937,880</u> | <u>135,830,084</u> |
| Interest paid in kind | 7,945,481 | 4,185,437 |
| <i>Centerbridge Partners, L.P</i> | 2017 | 2016 |
| | \$ | \$ |
| Opening balance at 1 July | 135,830,084 | 132,656,250 |
| Loan repayments | (27,377,977) | (5,584,134) |
| Interest charged | 15,717,795 | 16,980,684 |
| Interest paid in cash | (7,813,056) | (12,783,738) |
| Exchange differences | (4,418,966) | 4,561,022 |
| Closing balance at 30 June | <u>111,937,880</u> | <u>135,830,084</u> |
| Interest paid in kind | 7,945,481 | 4,185,437 |

(g) Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

Note 28. Deed of cross guarantee

The parent entity, Billabong International Limited, and subsidiaries listed below are parties to a deed of cross guarantee under which each company guarantees the debts of the others:

| 2017 | 2016 |
|------------------------------------|------------------------------------|
| GSM (Europe) Pty Ltd | GSM (Europe) Pty Ltd |
| GSM (Operations) Pty Ltd | GSM (Operations) Pty Ltd |
| Pineapple Trademarks Pty Ltd | Pineapple Trademarks Pty Ltd |
| BBG Asia Pty Ltd | BBG Asia Pty Ltd |
| Amazon (New Zealand) Pty Ltd | Amazon (New Zealand) Pty Ltd |
| GSM (Canada) Pty Ltd | GSM (Canada) Pty Ltd |
| GSM Trading (South Africa) Pty Ltd | GSM Trading (South Africa) Pty Ltd |
| Seal Trademarks Pty Ltd | |
| GSM Rocket Australia Pty Ltd | |
| GSM (Trademarks) Pty Ltd | |
| GSM (Duranbah) Pty Ltd | |
| GSM Trading (Singapore) Pty Ltd | |
| Rocket Trademarks Pty Ltd | |
| Board Sports Retail Pty Ltd | |

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' report under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785. The above companies represent a 'Closed Group' for the purposes of the instrument.

Note 28. Deed of cross guarantee (continued)**(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained losses**

Set out below are the condensed consolidated income statement, a consolidated statement of comprehensive income and a summary of movements in consolidated retained losses for the year ended 30 June 2017 and 30 June 2016 of the Closed Group.

| | 2017 | 2016 |
|--|------------------|------------------|
| | \$'000 | \$'000 |
| <i>Income statement</i> | | |
| Revenue from continuing operations | 583,183 | 584,452 |
| Other income | 66,026 | 14,318 |
| Finance costs | (2,967) | (5,587) |
| Other expenses | (589,211) | (609,973) |
| Impairment (expense)/reversal | (341,795) | 14,126 |
| Loss before income tax | <u>(284,764)</u> | <u>(2,664)</u> |
| Income tax (expense)/benefit | (6,165) | 1,608 |
| Loss for the year attributable to the members of the Closed Group | <u>(290,929)</u> | <u>(1,056)</u> |
| <i>Statement of comprehensive income</i> | | |
| Loss for the year | (290,929) | (1,056) |
| Other comprehensive income | | |
| <i>Items that may be reclassified to profit or loss</i> | | |
| Changes in the fair value of cash flow hedges, net of tax | (877) | (2,770) |
| Exchange differences on translation of foreign operations | (7,236) | 2,022 |
| Net investment hedge, net of tax | (5,672) | 9,100 |
| Other comprehensive (expense)/income for the year, net of tax | <u>(13,785)</u> | <u>8,352</u> |
| Total comprehensive (expense)/income for the year attributable to members of the Closed Group | <u>(304,714)</u> | <u>7,296</u> |
| <i>Summary of movements in consolidated retained losses</i> | | |
| Opening balance at 1 July | (472,005) | (443,642) |
| Loss for the year | (290,929) | (1,056) |
| Closing balance at 30 June | <u>(762,934)</u> | <u>(444,698)</u> |

During the year, investments in subsidiaries and long-term intercompany loan receivables outside of the Closed Group were tested for impairment which resulted in an impairment charge.

Note 28. Deed of cross guarantee (continued)**(b) Balance sheet**

Set out below is a consolidated balance sheet as at 30 June 2017 and 30 June 2016 of the Closed Group, consisting of the entities as named above at each point in time.

| | 2017 | 2016 |
|--|----------------|------------------|
| | \$'000 | \$'000 |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 51,681 | 35,399 |
| Trade and other receivables | 74,899 | 87,439 |
| Inventories | 92,205 | 95,184 |
| Current tax receivables | --- | 2,845 |
| Other | 9,354 | 8,160 |
| Total current assets | 228,139 | 229,027 |
| Non-current assets | | |
| Receivables | 9,773 | 368,023 |
| Other financial assets | 30,547 | 443,047 |
| Property, plant and equipment | 42,666 | 31,813 |
| Intangible assets | 45,705 | 35,482 |
| Deferred tax assets | 14,319 | 12,065 |
| Other | 3,954 | 4,250 |
| Total non-current assets | 146,964 | 894,680 |
| Total assets | 375,103 | 1,123,707 |
| LIABILITIES | | |
| Current liabilities | | |
| Trade and other payables | 72,862 | 80,960 |
| Borrowings | 1,251 | 1,730 |
| Current tax liabilities | 762 | --- |
| Provisions | 10,379 | 11,130 |
| Total current liabilities | 85,254 | 93,820 |
| Non-current liabilities | | |
| Borrowings | 15,887 | 420,608 |
| Deferred tax liabilities | 278 | 2,189 |
| Provisions | 3,313 | 3,806 |
| Other | 5,500 | 6,444 |
| Total non-current liabilities | 24,978 | 433,047 |
| Total liabilities | 110,232 | 526,867 |
| Net assets | 264,871 | 596,840 |
| EQUITY | | |
| Contributed equity | 1,094,274 | 1,094,274 |
| Reserves | (66,469) | (52,736) |
| Retained losses | (762,934) | (444,698) |
| Capital and reserves attributable to members of the Closed Group | 264,871 | 596,840 |
| Total equity | 264,871 | 596,840 |

Note 29. Parent entity financial information

The financial information for the parent entity, Billabong International Limited, has been prepared on the same basis as the consolidated financial report, except:

- Investments in subsidiaries are accounted for at cost, tested for impairment on an annual basis;
- Dividends received from subsidiaries are recognised in the parent entity's income statement when its right to receive the dividend is established; and
- Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

Note 29. Parent entity financial information (continued)**(a) Summary financial information**

The individual financial statements for the parent entity show the following aggregate amounts:

| | Parent entity | |
|---|----------------------|----------------|
| | 2017 | 2016 |
| | \$'000 | \$'000 |
| Total current assets | 8,246 | 8,961 |
| Total assets | 197,871 | 802,850 |
| Total current liabilities | 1,440 | 4,974 |
| Total liabilities | 15,895 | 513,104 |
| <i>Shareholders' equity</i> | | |
| Issued capital | 1,094,274 | 1,094,274 |
| Reserves | | |
| Option reserve | 50,483 | 50,473 |
| Retained earnings | (962,781) | (855,001) |
| | <u>181,976</u> | <u>289,746</u> |
| (Loss)/profit for the year | <u>(107,780)</u> | <u>12,372</u> |
| Total comprehensive (expense)/income | <u>(107,780)</u> | <u>12,372</u> |

(b) Contingent liabilities of the parent entity

Refer to note 30 (c).

(c) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2017 the parent entity had no contractual commitments for the acquisition of property, plant or equipment.

(d) Guarantees entered into by the parent entity

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

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

Billabong International Limited is a party to the deed of cross guarantee as described in note 28. No deficiencies of assets exist in any of the companies described in note 28. Billabong International Limited also provides guarantees to other subsidiaries in the Group for rental obligations.

(e) Tax consolidation legislation

Billabong International Limited and its wholly-owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2002. Members of the tax consolidated group have entered into a tax sharing agreement in order to allocate income tax expense to the wholly owned subsidiaries on a stand-alone basis. In the opinion of the Directors, the tax sharing agreement limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Billabong International Limited.

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

The entities have also entered into a tax funding agreement which requires each member of the tax consolidated group to pay a tax equivalent amount to or from the head entity in accordance with their notional current tax liability or current tax asset. The funding amounts are recognised as intercompany receivables or payables.

Other**Note 30. Contingencies**

Details and estimates of maximum amounts of contingent liabilities as at 30 June 2017 are as follows:

(a) Guarantees

For information about guarantees given by entities within the Group, including the parent entity, please refer to notes 28 and 29.

Note 30. Contingencies (continued)

(b) Letters of Credit

The Group had \$2.4 million letters of credit in favour of suppliers executed but undrawn as at 30 June 2017 (2016: \$7.8 million). The letters of credit related to standby letters of credit for various beneficiaries including, but not limited to, leases and insurance. All letters of credit are part of the ordinary course of business.

(c) Contingent liability associated with terminated agreement

The Group had at 30 June 2017 a contingent liability of up to \$3.5 million relating to the termination of a particular service agreement. The Company has disputed payment of this amount and intends to vigorously defend against any potential claim.

Note 31. Share-based payments

The Company provides benefits to employees (including the CEO and senior executives) in the form of share-based payments, whereby employees render services in exchange for options or rights over shares.

The Group operates a number of share-based payment plans. A description of each type of share-based payment arrangement that existed at any time during the period is described below.

The fair value of options and rights granted under equity-settled share based arrangements are measured at grant date and spread over the vesting period via a charge to employee benefit expense in the income statement and corresponding increase in equity.

Performance conditions

No expense is recognised for awards that do not ultimately vest due to a performance condition not being met.

Market conditions

The expense is recognised in full if the awards do not vest (or are not exercised) due to a market condition not being met.

The fair value of options and rights takes into account market performance conditions, but excludes the impact of any non-market vesting conditions (eg internal financial targets). Non-market vesting conditions are included in the assumptions about the number of options that are expected to be vested. Upon exercise of the options or rights, the relevant amount in the share-based payments reserve is transferred to contributed equity.

During the year ended 30 June 2017, options were granted as part of the Executive Long-Term Incentive Plan. The fair value of the options are determined using an option pricing model with the following inputs:

| | Market Priced options | Premium Priced options |
|------------------------|------------------------------|-------------------------------|
| Grant date | 30 November 2016 | 30 November 2016 |
| Grant date share price | \$1.21 per share | \$1.21 per share |
| Volatility | 50% | 50% |
| Dividend yield | 0% | 0% |
| Risk-free rate | 1.90% | 1.90% |
| Exercise price | \$1.23 per option | \$1.85 per option |
| Fair value | \$0.42 per option | \$0.27 per option |

The expected price volatility is based on historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

The fair value of the performance rights with market-based performance conditions (for example, Relative Total Shareholder Return (TSR)) is calculated at the date of grant using the Monte-Carlo simulation model. The probability of achieving market-based performance conditions is incorporated into the determination of the fair value per award.

The fair value of the performance rights with non-market based performance conditions (for example, Earnings per share (EPS) hurdle) is calculated using the Black-Scholes pricing model.

Note 31. Share-based payments (continued)

| Executive Long-Term Incentive Plan (ELTIP) | | | Short-Term Incentive (STI) Plan |
|--|--|---|---|
| | Options | Performance rights | Performance rights |
| Overview | Once vested, each option entitles the employee to receive one share in the Company and require payment of an exercise price. They are granted at no consideration and carry no dividend entitlement or voting rights until they vest. | Once vested, each performance right entitles the employee to receive one share in the Company with no exercise price payable. They are granted at no consideration and carry no dividend entitlement or voting rights until they vest. | Once vested, each performance right entitles the employee to receive one share in the Company with no exercise price payable. They are granted at no consideration and carry no dividend entitlement or voting rights until they vest. |
| Vesting conditions | Subject to an employee remaining in employment of the Company. | 50% of awards EPS hurdle, 50% of awards tested on TSR Subject to the employee remaining in employment of the Company. | Subject to an employee remaining in employment of the Company. |
| Vesting period | Three years | Three years | Two years |
| Vested awards | Vested options will remain exercisable until the expiry date which is the earlier of six months excluding closed trading periods and one year. On expiry, any vested but unexercised options will lapse. | Vested Performance Rights will remain exercisable until the expiry date. On expiry, any vested but unexercised Performance Rights will lapse. | Shares are issued upon vesting. |
| Unvested awards | Unvested awards are forfeited if the employee voluntarily ceases employment or is dismissed for poor performance. | Unvested awards are forfeited if the employee voluntarily ceases employment or is dismissed for poor performance. | Unvested awards are forfeited if the co-worker voluntarily ceases employment or is dismissed for poor performance. |

A sign-on incentive in the form of an equity rights award was granted to Jim Howell on 19 June 2017. The 50% of the rights will vest on 19 June 2018 and 50% on 19 June 2019 if Jim remains in employed by the Company on these vest dates. The terms of the awards are the same as under the STI plan as noted above except for the vesting period. These awards have been included in the below table.

(a) Movement of awards

The following table shows the movement of the awards under the share-based payment plans:

| 2017 | Options | | ELTIP- performance rights | STI deferred- performance rights ² |
|----------------------------|-----------|--|---------------------------------|---|
| | Number | Exercise price ¹ \$/option | Number | Number |
| Opening balance at 1 July | --- | --- | 4,283,358 | 66,963 |
| Granted | 9,337,400 | 0.33 | --- | 648,568 |
| Exercised | --- | --- | --- | (36,253) |
| Forfeited | (628,800) | (0.33) | (353,806) | --- |
| Expired | --- | --- | (823,194) | --- |
| Closing balance at 30 June | 8,708,600 | 0.33 | 3,106,358 | 679,278 |
| Exercisable at 30 June | --- | --- | --- | --- |

¹ The weighted average exercise price of the options. The exercise price of the performance rights are nil.

² Includes the sign-on equity awards granted to Jim Howell. The fair value at grant date per right is \$0.88.

Note 31. Share-based payments (continued)

(a) Movement of awards (continued)

| 2016 | ELTIP- performance rights Number | STI deferred- performance rights Number |
|----------------------------------|---|--|
| Opening balance at 1 July | 10,752,405 | 624,825 |
| Share consolidation | (8,601,917) | (267,848) |
| Granted | 2,241,222 | 153,539 |
| Exercised | --- | (443,553) |
| Forfeited | (108,352) | --- |
| Closing balance at 30 June | 4,283,358 | 66,963 |
| | Fair value at grant date per right | Fair value at grant date per right |
| EPS | \$2.45 | |
| TSR | \$1.60 | |
| STI deferred- performance rights | | \$3.15 |

The number of awards outstanding have been adjusted for the share consolidation of 5:1 during the financial year ended 30 June 2016.

(b) Further information on options

Options outstanding at the end of the year have the following exercise prices:

| Grant date | Expiry date | Exercise price | 30 June 2017 Number |
|---|------------------|----------------|------------------------|
| 30 November 2016 | 30 November 2020 | \$1.23 | 3,333,600 |
| 30 November 2016 | 30 November 2020 | \$1.85 | 5,375,000 |
| Outstanding at end of financial period | | | 8,708,600 |
| Weighted average remaining contractual life of options outstanding at end of the period | | | 2.4 years |

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefits expense were as follows:

| | 2017 \$ | 2016 \$ |
|--|------------|------------|
| Operating costs of the share-based payment plans | 26,955 | 26,426 |
| Share-based payment expense | 514,439 | 1,614,941 |
| | 541,394 | 1,641,367 |

Note 32. Events occurring after the balance sheet date

On 28 July 2017, the Company announced that the agreement with the previous Omni-Channel solution provider had been terminated. The Company remains committed to rolling out its Omni-Channel solution and expects to deliver the overall solution materially close to its original range of budget expectations. As a result of termination of the agreement, an impairment expense has been recognised in the financial year ended 30 June 2017. Refer to note 16.

Other than the item noted above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature that would be likely, in the opinion of the Directors, to significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Note 33. Remuneration of auditor

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

| | 2017 \$ | 2016 \$ |
|--|------------------|------------------|
| PwC Australia | | |
| <i>Audit and other assurance services</i> | | |
| Audit and review of financial reports | 1,402,171 | 1,248,879 |
| Other assurance services | 44,280 | 46,114 |
| <i>Taxation services</i> | | |
| International tax consulting together with separate tax advice on acquisitions and disposals | 108,456 | 193,354 |
| <i>Other services</i> | | |
| Due diligence services | 375,000 | --- |
| Total remuneration of PwC Australia | <u>1,929,907</u> | <u>1,488,347</u> |
| Network firms of PwC Australia | | |
| <i>Audit and other assurance services</i> | | |
| Audit and review of financial reports | 327,935 | 334,523 |
| <i>Taxation services</i> | | |
| International tax consulting together with separate tax advice on acquisitions and disposals | 90,118 | 192,908 |
| Total remuneration of Network firms of PwC Australia | <u>418,053</u> | <u>527,431</u> |
| Total auditor's remuneration | <u>2,347,960</u> | <u>2,015,778</u> |

Note 34. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are generally disclosed above where the related accounting balance or financial statement matter is discussed. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Billabong International Limited and its subsidiaries (the Group or consolidated entity).

(a) Basis of preparation

The general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Group is a for-profit entity for the purpose of preparing the financial report.

Compliance with IFRS

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

Early adoption of standards

The Group has elected not to early apply accounting standards that are not applicable to the accounting period ended 30 June 2017.

Historical cost convention

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

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 35.

(b) Goods and Services Tax (GST)

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

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

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

Note 34. Summary of significant accounting policies (continued)**(c) Rounding of amounts**

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(d) New and amended accounting standards adopted by the Group

A number of new or amended standard became applicable for current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

(e) Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

| Title of standard | Summary and impact on Group's financial statements | Application date for Group financial year ending |
|--|--|--|
| AASB 9 <i>Financial Instruments</i> | <p>AASB 9 replaces AASB 139 and addresses the classification, measurement and derecognition of financial assets and financial liabilities. It also addresses the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs and risk components that can be hedged.</p> <p>AASB 9 introduces a new expected-loss impairment model that will require entities to account for expected credit losses at the time of recognising the asset.</p> <p>The work to date performed on the Group implementation project plan primarily focused on an in-depth review of the requirements of the standard and determination of the impact on the Group.</p> <p>The Group does not expect the adoption of the new standard to have a material impact on its classification and measurement of the financial assets and liabilities.</p> <p><i>Impairment- expected credit loss model</i> Due to the nature of financial assets held (trade receivables) it is expected that the Group's financial assets held will have low credit risk and the adoption of AASB 9 will have no material impact to the Group.</p> <p><i>Changes to hedge accounting</i> The Group will have to review the Risk Management policies to ensure risk management objectives are clearly defined and effective hedges under the requirements IFRS 9 will be entered into.</p> <p>As the Group only hold hedges to minimise foreign exchange risk on the purchasing of inventory (not for trading), there is not expected to be any accounting impact on the Group with the application of IFRS 9.</p> <p>The Group has decided not to early adopt AASB 9.</p> | 30 June 2019 |

Note 34. Summary of significant accounting policies (continued)**(e) Impact of standards issued but not yet applied by the Group (continued)**

| Title of standard | Summary and impact on Group's financial statements | Application date for Group financial year ending |
|--|--|--|
| <i>AASB 15 Revenue from contracts with customers</i> | <p>The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services.</p> <p>The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.</p> <p>The Group has implemented a project plan and is currently undertaking an in-depth review of the requirements of the upcoming AASB 15 that will come into effect 1 January 2018. This means it will be applied to the reporting period ending 30 June 2019.</p> <p>The Group are engaging the wider business in the AASB 15 discussions and considering any requirements as part of the Omni-Channel system development. The outcome of these assessments will determine whether any accounting changes are required.</p> <p>The Group has identified the following areas that are likely to be affected:</p> <ul style="list-style-type: none"> • Rights of return: AASB 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation. <p>The profile of revenue and profit recognition will change for some entities as the new standard is more detailed and more prescriptive than the existing guidance and introduces new complexities. However, due to the straightforward nature of the contracts entered into by the Group in carrying out wholesale and retail business transactions, IFRS 15 will have little, if any, effect on the amount and timing of revenue recognition.</p> <p>The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group has decided not to early adopt AASB 15.</p> | 30 June 2019 |
| <i>AASB 16 Leases</i> | <p>AASB 16 will result in the recognition of almost all leases on the balance sheet, as the distinction between operating and financing leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised and the depreciation of lease assets and interest on lease liabilities on the income statement will be recognised over the lease term. The only exceptions are short-term and low-value leases.</p> <p>Given the number of retail stores, offices and warehouses the Group leases under operating leases, and at 30 June 2017 non-cancellable operating lease commitments held by the Group of \$201.3 million (note 25), it is expected that the impact of this standard will be significant on the presentation of the financial statements.</p> <p>An implementation project plan has been developed and commenced being carried out. The work performed to date includes an in-depth review of the requirements and steps for implementation, engagement with the wider Group to identify the common terms of contracts currently and in future will be entered, and an assessment of the capability of current data management and calculation systems.</p> <p>The gross up of the balance sheet and the impact to EBIT and EBITDAI under the proposed standard had been considered during negotiations of major contracts entered into during the year.</p> <p>The Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's income statement and classification of cash flows. The Group is still currently evaluating the impact of the new standard.</p> <p>The new standard will be effective for annual reporting periods beginning on or after 1 January 2019, which means that it will be applied in the reporting period ending 30 June 2020.</p> <p>The Group does not intend to adopt the standard before its operative date.</p> | 30 June 2020 |

Note 35. Summary of critical accounting estimates

In applying the Group's accounting policies, the Directors are required to make estimates, judgements and assumptions that affect amounts reported in this financial report. The estimates, judgements and assumptions are based on historical experience, adjusted for current market conditions and other factors that are believed to be reasonable under the circumstances and are reviewed on a regular basis. Actual results may differ from these estimates. The estimates and judgements which involve a higher degree of complexity or that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period are included in the following notes:

- Note 4 - Taxes
- Note 15 - Property, plant and equipment
- Note 16 - Intangible assets

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period; or in the period and future periods if the revision affects both current and future periods.

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 30 to 89 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 30 June 2017 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 28 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 28.

Note 34 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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



Ian Pollard
Chair

Gold Coast
30 August 2017



Independent auditor's report

To the shareholders of Billabong International Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Billabong International Limited (the Company) and its controlled entities (together, the Group or Billabong International) is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2017
- the consolidated statement of comprehensive income for the year ended 30 June 2017
- the consolidated income statement for the year then ended 30 June 2017
- the consolidated statement of changes in equity for the year ended 30 June 2017
- the consolidated cash flow statement for the year ended 30 June 2017
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Billabong International in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

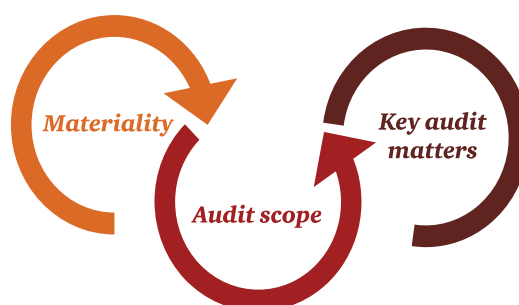
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Liability limited by a scheme approved under Professional Standards Legislation.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The Group's business is the wholesaling and retailing of surf, skate, snow and sports apparel, accessories and hardware currently comprising multiple brands and retail banners over three key reporting segments being Asia Pacific, Americas and Europe. The individual reporting segments report to the Group's finance function in Australia, where the consolidation of the Group is performed.



Materiality

- For the purpose of our audit we used overall group materiality of \$7.0 million (AUD), which represents approximately 0.75% of the Group's annual revenue for the year ended 30 June 2017.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We have applied a revenue benchmark because, in our view, it is the metric against which the performance of the Group is most commonly measured. Profit before tax was not deemed an appropriate measure given its volatility as a result of the Group's ongoing reform initiatives. We utilised a 0.75% threshold based on our professional judgement.

Audit scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- Our scoping considerations are based on both risk and financial considerations. In the components which contribute the majority of the Group's revenue and earnings before interest, tax, depreciation and amortisation (EBITDA), being the United States of America, Australia and France, procedures are performed over material balances. Procedures over specific balances have been performed in Japan, New Zealand and the United Kingdom based on the financial significance and risk associated with these balances and to ensure that sufficient audit evidence has been obtained for the purpose of our opinion over the Group's consolidated financial report.
- The work was performed by the group engagement team and local component auditors.. Local component auditors operate under instruction and supervision by the group engagement team.
- Senior members of the group engagement team visited four countries where the Group has operations during the 2017 audit, being Australia, the United States of America, United Kingdom and France, and met with local management and component auditors, where a local auditor is involved.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| <p>Whole of business impairment assessment <i>(Refer to note 16)</i></p> <p>At 30 June 2017, the Group had a net asset position which represented a premium to the market capitalisation of the Company. This was considered an indicator of overall asset impairment.</p> <p>After the Group assessed all group assets for impairment, a significant premium of net assets to market capitalisation continued to exist. As a result, the Group prepared an impairment assessment based on valuing the Group based on a whole of business cash generating unit using external evidence available to the Group. As a result, additional impairment of \$77.8 million was recognised in the 30 June 2017 financial report.</p> <p>In allocating the impairment, the Group assessed each significant asset and the expected recoverable amount and allocated it to Goodwill. The impairment resulted in no Goodwill remaining in the Group at 30 June 2017.</p> <p>We focussed on this matter due to the overall impairment indicators applicable to the Group, the judgment applied in determining the amount of impairment and external evidence that indicated material impairment could exist.</p> | <p>Our procedures included performing the following:</p> <ul style="list-style-type: none">- Assessed the major assets of the Group to determine whether indicators of impairment existed for tangible assets;- Assessed the Group's valuation of its major property, plant and equipment assets;- Assessed the Group's valuation of brand and intangible assets (see separate Key Audit Matter);- Considered the Board minutes of the Company to develop an understanding of the future strategy of the Group and assess whether indicators of impairment existed for specific assets;- Evaluated the external evidence available to the Group which gave rise to the overall valuation of the Group and the impairment that was recorded;- Assessed the appropriateness of the allocation of the impairment to Goodwill; and- Performed sensitivity analysis on the key assumptions used by the Group in assessing the valuation of the Group. <p>We also considered the adequacy of disclosures made in the financial statements, including their appropriateness under Australian Accounting Standards.</p> |
| <p>Impairment assessment of brand and goodwill intangible assets <i>(Refer to note 16)</i></p> <p>As described in the accounting policies and disclosures to the financial statements, the Group recognises significant brand and goodwill intangible assets.</p> <p>At each reporting period, an impairment assessment is performed by the Group to evaluate if the carrying value of the Group's indefinite lived intangible assets are supportable. Should a shortfall in value be identified, then an impairment charge is recognised in the income statement.</p> | <p>We considered the appropriateness of the value in use and fair value less costs of disposal valuation methodologies applied by the Group in calculating the recoverable amount of the brand and goodwill intangible assets. We have completed the following procedures in relation to the valuation models:</p> <ul style="list-style-type: none">- Tested the mathematical accuracy of the calculations in the models;- Involved PwC valuation experts to compare the discount rates and multiples applied in the models with market practice in the industry;- Compared forecast growth rates applied in the models to independent industry forecasts and to comparable companies to determine |

| Key audit matter | How our audit addressed the key audit matter |
|---|--|
| <p>Conversely, where an impairment has been recorded against intangible assets (other than goodwill) in previous years, the Group assessed whether or not sufficient evidence exists to support the reversal of previously impaired balances in the current year.</p> <p>Valuations were performed by the Group over all brand and regional cash generating units, resulting in a total impairment being recognised of \$16.5 million against several of the Group's brand and goodwill assets. As noted in the separate Key Audit Matter, a further impairment of \$77.8 million was recorded to the Group's Goodwill at a whole of business level.</p> <p>We focussed on this matter because each brand and goodwill valuation includes a number of significant assumptions which rely on the Group's judgement and estimates of future performance. The impact on the financial report of the impairment recognised was also material.</p> | <p>whether these are considered to be within a reasonable range;</p> <ul style="list-style-type: none"> - Compared the valuations to observed market EBITDA multiples to determine whether these are considered to be within a reasonable range; - Evaluated the reasonableness of cash flow forecasts included in the models through our analysis of the Group's strategy and history of executing that strategy, noting that the cash flow forecasts are in line with future strategy and approved business plans; and - Performed sensitivity analysis on the models with respect to the discount rate and terminal growth rate assumptions for brands and goodwill using the value in use methodology, and the multiple applied to those brands using the fair value less costs of disposal methodology. <p>We also considered the adequacy of disclosures made in the financial statements, including their appropriateness under Australian Accounting Standards.</p> |
| <p><i>Prior period error for United States of America inventory accounting</i> <i>(Refer to page 52 of the financial statements)</i></p> <p>The inventory controls in the United States of America (USA) are manual and the month-end process requires management input and analysis. In the current year, the Group undertook a number of initiatives to improve the accuracy of key reports used to determine the closing inventory balance and related inventory accruals for the USA. This resulted in an adjustment being recorded to correct the balance sheet position of inventory and the related accruals within trade and other payables. It was determined that this adjustment related to prior periods. As a result the 2015 and 2016 comparative disclosures have been restated and a correction of error disclosure has been made in the 2017 financial report.</p> <p>We focussed on this matter due to the judgment and analysis applied by the Group in the inventory costing and period end process and the nature of the matter resulting in a prior period error.</p> | <p>In assessing the prior period error and the associated restatement of the comparative financial statements, we performed procedures including the following:</p> <ul style="list-style-type: none"> - Tested the key reports generated by the Group to determine the associated inventory and trade payables accounts in each of the financial years of 2017, 2016 and 2015; and - Tested the calculation of the associated impact on each of the financial statements of financial years of 2017, 2016 and 2015 by considering the relevant balance sheet position of each year. <p>We also considered the adequacy of disclosures made in the financial statements, including their appropriateness under Australian Accounting Standards.</p> |

Impairment of Omni-channel solution

(Refer to note 16)

The Group announced in July 2017 that it had terminated its contract with its previous Omni-channel solution provider and that it was moving to another technology solution. As a result of the change in provider, an impairment expense of \$11.7 million was recognised in the financial report relating to costs that had been capitalised but are not recoverable under the revised technology solution.

The impairment assessment by the Group considered each component of costs that had been capitalised at the point of contract termination and determined the extent that these costs are recoverable under the revised Omni-channel plan.

In forming the assessment, the Group applied certain judgements to determine the write-off resulting in a significant accounting estimate.

We focussed on this matter due to the magnitude of the impairment and the level of judgement that was applied in determining the level of impairment.

Our procedures included performing the following:

- Obtained copies of the Board approved technology plan to develop an understanding of the impacts of the change in provider and evaluate the impact on the existing amounts capitalised;
 - Tested the write-off of each component of capitalised costs by considering the total cost that had been capitalised and the level of recoverability that would exist under a revised plan;
 - Evaluated the amounts the Group deemed recoverable under the revised plan, including assessing the percentage of expected use for each component;
 - Performed sensitivity analysis over the recoverable amount assumptions where these were estimated by the Group;
 - Evaluated the accounting treatment of outstanding payment amounts under the terminated contract;
 - Confirmed with legal counsel the status of legal claims; and
 - Considered the adequacy of disclosures made in the financial statements, including their appropriateness under Australian Accounting Standards.
-

Other information

The directors are responsible for the other information. The other information included in the Group's Annual Report for the year ended 30 June 2017 comprises the Directors' Report, Operating and Financial Review and Corporate Governance Statement (but does not include the Financial Report and our Auditor's Report thereon), which we obtained prior to the date of this auditor's report. We expect other information to be made available to us after the date of this auditor's report, including Chair's Report, CEO Report, Company Overview, Brands Review and the Sustainability Report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 15 to 26 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Billabong International Limited, for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

K. Stubbins

Kristin Stubbins
Partner

Sydney
30 August 2017

The shareholder information set out below was applicable as at 28 August 2017.

Distribution of Equity Securities

Analysis of numbers of equity security holders by size of holding:

| | | Ordinary shares | | Unquoted options | |
|---------|----------|-------------------------|------------------|--------------------------|-------------------|
| | | Number of share holders | Number of shares | Number of option holders | Number of options |
| 1 | 1,000 | 11,642 | 2,413,434 | --- | --- |
| 1,001 | 5,000 | 1,821 | 4,106,518 | --- | --- |
| 5,001 | 10,000 | 373 | 2,682,658 | --- | --- |
| 10,001 | 100,000 | 385 | 10,810,561 | --- | --- |
| 100,001 | and over | 86 | 178,065,939 | 104 | 23,965,629 |
| | | 14,307 | 198,079,110 | 104 | 23,965,629 |

There were 10,867 holders of less than a marketable parcel of ordinary shares.

Equity Security Holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

| Name | Ordinary shares | |
|--|-----------------|-----------------------------|
| | Number held | Percentage of issued shares |
| J P Morgan Nominees Australia Limited | 54,132,366 | 27.33% |
| OCM Clean Wave Holdings BV | 32,926,830 | 16.62% |
| Gordon Merchant No 2 Pty Ltd <The Merchant Family A/C> | 20,726,815 | 10.46% |
| Citicorp Nominees Pty Limited | 16,624,031 | 8.39% |
| HSBC Custody Nominees (Australia) Limited | 16,293,488 | 8.23% |
| Brispot Nominees Pty Ltd <House Head Nominee No 1 A/C> | 6,899,039 | 3.48% |
| GSM Superannuation Pty Ltd ACN 120 470 813 <The Gordon Merchant Super A/C> | 2,762,956 | 1.39% |
| BNP Paribas Noms Pty Ltd <DRP> | 1,592,752 | 0.80% |
| Mr Timothy Lindsay McCaughey <Citadel A/C> | 1,065,000 | 0.54% |
| Merrill Lynch (Australia) Nominees Pty Limited | 1,063,305 | 0.54% |
| Netwealth Investments Limited <WRAP SERVICES A/C> | 1,007,820 | 0.51% |
| RBC Investor Service Australia Nominees Pty Ltd <VFA A/C> | 999,823 | 0.50% |
| Mr Michael Mcauliffe and Ms Colette Paull | 944,720 | 0.48% |
| BNP Paribas Nominees Pty Ltd <IB AU NOMS RETAIL CLIENT DRP> | 908,729 | 0.46% |
| Mr Peter Constable | 790,000 | 0.40% |
| National Nominees Limited | 677,269 | 0.34% |
| GSM Pty Ltd | 623,974 | 0.32% |
| Cedar Party Pty Ltd <PNS A/C> | 600,000 | 0.30% |
| FIR Nominees Pty Limited <TRS A/C> | 596,287 | 0.30% |
| Forester Investments Pty Limited <Wellington Super Fund A/C> | 582,000 | 0.29% |
| | 161,817,204 | 81.68% |

Unquoted Equity Securities

| | | Unquoted Equity Securities | |
|--|------------------------------------|----------------------------|-------------------|
| | | Number on issue | Number of holders |
| Options issued under the refinancing proposal as announced to the Australian Securities Exchange on 16 July 2013: | | | |
| Class - BBGAO | | 8,451,958 | 3 |
| The following entities hold 20% or more of these securities: | | | |
| Class - BBGAO | ACP Burleigh Holdings, LLC | 1,549,526 | |
| | FS Investment Corporation | 3,451,216 | |
| | FS Investment Corporation II | 3,451,216 | |
| Options issued under the recapitalisation proposal as announced to the Australian Securities Exchange on 19 September 2013: | | | |
| Class - BBGAQ | | 5,916,371 | 2 |
| The following entities hold 20% or more of these securities: | | | |
| Class - BBGAQ | CCP II Dutch Acquisition - E, B.V. | 2,958,185 | |
| | OCM Clean Wave Holdings B.V. | 2,958,186 | |
| Options issued pursuant to the Company's Executive Option as announced to the Australia Securities Exchange on 6 February 2014: | | | |
| Class - BBGAS | | 240,000 | 1 |
| The following entities hold 20% or more of these securities: | | | |
| Class - BBGAS | Patrick M, Tenore, Jr | 240,000 | |
| Market Priced Options issued pursuant to the Company's Executive Incentive Plan as announced to the Australia Securities Exchange on 7 December 2016: | | | |
| Class - BBGAU | | 3,612,230 | 55 |
| Premium Priced Options issued pursuant to the Company's Executive Incentive Plan as announced to the Australia Securities Exchange on 7 December 2016: | | | |
| Class - BBGAW | | 5,745,070 | 55 |

Substantial Holders

As at 28 August 2017 the names of substantial holders in the Company who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are set out below:

| Ordinary Shares | | |
|------------------------------------|------------|------------|
| | Number | Percentage |
| CCP II Dutch Acquisition - E, B.V. | 38,105,300 | 19.24% |
| OCM Clean Wave Holdings B.V. | 38,105,301 | 19.24% |
| Gordon Stanley Merchant | 25,368,716 | 12.81% |

Voting Rights

The voting rights attaching to each class of equity securities are set out below:

(a) *Ordinary shares*

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) *Options*

No voting rights.

Stock Exchange Listing

The shares of the Company are listed under the symbol BBG on the Australian Securities Exchange. The Company's home branch is Sydney.

Shareholder Enquiries

If you are a shareholder with queries about your holdings you should contact the Company's Share Registry as follows:

Computershare Investor Services Pty Limited
GPO Box 2975
MELBOURNE VIC 3001

Telephone Australia: 1300 850 505
Telephone International: +61 3 9415 4000
Fax: +61 3 9473 2500
Website: <https://www-au.computershare.com/investor/>

Become an Online Shareholder

You can also access your current shareholding and update your details online. To register, you should visit the share registry at and enter your personal securityholder information (e.g. Holder Identification Number (HIN) or Securityholder Reference Number (SRN)) and postcode, then click on 'Submit' and follow the prompts.

Change of Address

Issuer sponsored shareholders should notify the share registry immediately upon any change in their address quoting their Securityholder Reference Number (SRN) either in writing or online. Changes in addresses for broker sponsored holders should be directed to the sponsoring brokers with the appropriate Holder Identification Number (HIN).

Dividends

If a dividend is declared the payments may be paid directly into your nominated financial institution in Australia, New Zealand, United Kingdom or United States. Dividend payments are electronically credited on the dividend payment date and confirmed by payment advices mailed directly to your registered shareholder address. Application forms are available from our Share Registry or update your details online.

If you have not provided direct credit instructions to have your dividend paid directly into a nominated financial institution or you do not have your shareholding registered in one of the above four countries, then you will receive an Australian dividend cheque.

Billabong International Limited also pays dividends by local currency cheque to shareholders who maintain a registered address in the following jurisdictions:

Europe - Euro, Hong Kong - \$HK, Japan- Yen, New Zealand - \$NZ, United Kingdom - GBP, and United States - \$US.

Dividend Reinvestment Plan

The Board has not declared a final ordinary dividend for the year ended 30 June 2017. The Dividend Reinvestment Plan (DRP) remains suspended.

Annual Report

The latest Annual Report can be accessed from the Company's corporate website at www.billabongbiz.com. If you are a shareholder and you wish to receive a hard copy of the Annual Report, please contact our Share Registry or update your details online.

Tax File Numbers (TFN)

Billabong International Limited is obliged to deduct tax from unfranked or partially franked dividends paid to shareholders registered in Australia who have not provided their TFN to the Company. If you wish to provide your TFN, please contact the Share Registry or update your details online.

Consolidation of Multiple Shareholdings

If you have multiple shareholding accounts that you wish to consolidate into a single account, please advise the Share Registry in writing. If your holdings are broker sponsored, please contact the sponsoring broker directly.

Other Shareholder Information

Visit the Company's corporate website at www.billabongbiz.com for the Company's latest information.