

 **BILLABONG**

 **ELEMENT**

RVCA

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 **XCEL**

HONOLUA
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PALMERS

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

	Page
Appendix 4D	2
Directors' report	3
Auditor's independence declaration	9
Consolidated income statement	10
Consolidated statement of comprehensive income	10
Consolidated balance sheet	11
Consolidated statement of changes in equity	12
Consolidated cash flow statement	13
Notes to the financial statements	14
Directors' declaration	26
Independent auditor's review report to the members of Billabong International Limited	27

INTERIM FINANCIAL REPORT 31 DECEMBER 2017

This interim financial report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2017 and any public announcements made by Billabong International Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Billabong International Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:
1 Billabong Place, Burleigh Heads Qld 4220
For queries in relation to reporting please call +61 7 5589 9899 or email:
secretary@billabong.com.au
Corporate website: www.billabongbiz.com

Extracts from this report for announcement to the market.

	Half-year 2017 \$'000	Restated Half-year ^ 2016 \$'000	Change \$'000	%
Total revenue from ordinary activities	476,428	511,027	(34,599)	(6.8%)
Loss from ordinary activities after tax attributable to members	(18,400)	(12,971)	(5,429)	n/a
Net loss for the period attributable to members	(18,400)	(12,971)	(5,429)	n/a

^ In the annual report for the year ended 30 June 2017, the Group had a correction of prior period error relating to the accounting for inventory in the United States of America. The same correction has been processed through the comparatives of this report. Refer to the Interim Financial Report 31 December 2017 note 5 of correction of prior period error. Above prior year figures are inclusive of Tigerlily which was sold effective 1 April 2017.

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

The Board has not declared an interim ordinary dividend for the half-year ended 31 December 2017.

The Dividend Reinvestment Plan (DRP) remains suspended.

NTA backing	Half-year 2017	Restated Half-year 2016
Net tangible asset backing per ordinary share	\$0.49	\$0.32

Explanation of Results

Please refer to the Operating and Financial Review within the Directors' Report for an explanation of the results.

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Billabong International Limited (the Company) and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

Directors

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

Ian Pollard
Neil Fiske
Kim Anderson
Gordon Merchant
Howard Mowlem
Elliott Weinstein was appointed as Director on 3 July 2017 and continues in office at the date of this report.

Operating and Financial Review

Group overview

Significant changes in the state of affairs

The statement below should be read in conjunction with note 32 (events occurring after the balance sheet date) of the annual report for the year ended 30 June 2017 and any public announcements made by the Company during the financial half-year.

On 5 January 2018 the Company announced that it had entered into a Scheme Implementation Deed with Boardriders, Inc. (Boardriders) under which Boardriders has agreed to acquire all of the shares in the Company, other than those already owned by its related entities, at a price of \$1.00 per share in cash, via a scheme of arrangement (the Scheme).

Boardriders is controlled by funds managed by Oaktree Capital Management, L.P. (Oaktree). Oaktree already holds 19% of the shares in the Company, and is one of the Group's two senior lenders. Oaktree's shares will not be acquired under the Scheme, and Oaktree will not vote its shares on the resolutions to approve the Scheme at the Scheme meeting.

The Scheme consideration of \$1.00 per share represents an implied enterprise value (EV) of \$380 million.

A Scheme Booklet was issued on 14 February 2018, containing information relating to the Scheme, the independent expert's report which concludes the Scheme is fair and reasonable and therefore in the best interests of the Company's shareholders and the reasons for the Company Directors' unanimous recommendation in favour of the Scheme. Company shareholders will be given the opportunity to vote on the Scheme at a Scheme meeting to be held on 28 March 2018.

Subject to the conditions of the Scheme being satisfied, the Scheme is expected to be implemented in April 2018. These dates are indicative and subject to change. There is no guarantee that the Scheme will be implemented.

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

Group financial performance

The Group results for the period and the prior corresponding period (pcp) include certain significant items. Refer to note 3 of the half-year 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. Effective 1 April 2017 the Group sold Tigerlily. The pcp results of Tigerlily have been reported in these financial statements as discontinued operations.

In the annual report for the year ended 30 June 2017, the Group had a correction of prior period error relating to the accounting for inventory in the United States of America. The same correction has been processed through the comparatives of this report. Refer to note 5 of the half-year financial statements.

Operating and Financial Review (continued)

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

	Segment revenues		Segment EBITDAI * ^	
	Half-year 2017 \$'000	Half-year 2016 \$'000	Half-year 2017 \$'000	Restated Half-year 2016 \$'000
Asia Pacific	198,577	231,339	11,137	19,181
Americas	194,151	192,093	(2,528)	(2,296)
Europe	81,743	84,887	911	3,439
Third party royalties	1,294	1,586	1,294	1,586
Segment revenues / EBITDAI* ^	<u>475,765</u>	<u>509,905</u>	<u>10,814</u>	<u>21,910</u>
Less: Depreciation and amortisation			(13,587)	(14,578)
Net interest expense			(13,468)	(16,416)
Loss before income tax expense			(16,241)	(9,084)
Income tax expense			(2,159)	(3,887)
Loss attributable to members of Billabong International Limited			<u>(18,400)</u>	<u>(12,971)</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 prior year has been restated. Refer to note 5 of the half-year financial statements.

Table B: Adjusted segment results

Adjusted EBITDAI by Segment

	Excluding significant items and discontinued operations *	
	Half-year 2017 \$'000	Restated Half-year 2016 \$'000
Asia Pacific	11,946	15,116
Americas	4,793	3,395
Europe	1,278	3,784
Third party royalties	1,294	1,586
Adjusted EBITDAI	<u>19,311</u>	<u>23,881</u>
Less: Depreciation and amortisation	(13,587)	(14,083)
Net interest expense	(13,468)	
Adjusted net loss before income tax expense	(7,744)	
Adjusted income tax expense	(1,855)	
Adjusted net loss attributable to members of Billabong International Limited	<u>(9,599)</u>	

* Excludes Tigerlily.

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 3 of the half-year financial statements for detailed disclosure in relation to these items.

Operating and Financial Review (continued)

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

Consolidated result including significant items

Net loss after tax for the half-year ended 31 December 2017 was \$18.4 million compared to a net loss after tax of \$13.0 million in the pcp. EBITDAI was impacted by the abovementioned significant items in both years.

Group performance excluding significant items and excluding discontinued operations

Group sales to external customers of \$474.5 million, excluding third party royalties, represents an as reported 3.1% decrease on the pcp. In constant currency terms Group revenues decreased 1.5% on the pcp. In constant currency terms, sales revenue in the Americas increased 3.9%, Asia Pacific decreased 4.5% and Europe decreased 6.1% compared with the pcp.

Consolidated gross margins were 52.0% (51.0% in the pcp) and were up in every region, marking continued progress in the global sourcing and concept to customer initiatives.

Adjusted EBITDAI excluding significant items of \$19.3 million for the period compares to \$23.9 million for the pcp. This is a decrease of 19.1% (a decrease of 15.9% in constant currency terms). This is consistent with the Company announcement on 5 January 2018 and at the AGM where it was stated that given the increasing proportion of earnings represented by the Americas and Europe, the earnings profile for the financial year ended 30 June 2018 (FY18) is expected to be similar to FY17, with the first half EBITDA below the pcp and all the growth biased towards the second half.

In regards to the Group EBITDA, it is important to note that we saw some significant shifts between the first half and second half that should be recouped in the second half, specifically:

- A revenue shift in the shipping pattern in Europe between the halves, which explains approximately \$1.5 million of the first half EBITDA decline, and
- A cost shift in the timing of Billabong global marketing from the second half into the first half, which represents another \$1 million of the lower first half EBITDA.

Cost of Doing Business (CODB) was up on the pcp \$5.0 million in constant currency terms or 180 basis points, reflecting the timing shift in Billabong global marketing, as well as investments we made in revenue-driving growth areas like ecommerce and RVCA. There was also a small increase in store rent, and a non-cash change in long term incentive expenses due to the use of options.

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

- In Asia Pacific
 - EBITDAI of \$11.9 million for the period compared to \$15.1 million for the pcp.
 - Revenue was 6.6% lower than the pcp in as reported terms (down 4.5% in constant currency terms).
 - Bricks and mortar comparable store sales trading across the region was 0.9% higher compared to the pcp.
 - In Australia, where retail conditions remained challenging, comparable bricks and mortar store sales were down 0.6% on the pcp but during the key December month they were up 2.0%.
 - Ecommerce grew 28.7% in constant currency terms compared to the pcp and is now 2.5% of total regional sales, still a low penetration overall.
 - Total comparable retail sales (comparable stores and ecommerce added together) for the region were up 1.8% compared to the pcp.
 - Broader retail pressures extended to wholesale accounts, down 16.6% on a constant currency basis. Wholesale weakness reflected the combination of a soft market, challenges with some of our major accounts, consolidation among the specialty channel, and the lag effect of assortment misses and execution issues identified last financial year. At the AGM, management outlined the corrective actions taken in the market and advised that it would take time for these changes to flow through the wholesale channel, which operates on longer lead times than the retail business.
 - Gross margins were up 120 basis points on the pcp (54.9% vs 53.7%).
- In Americas
 - EBITDAI of \$4.8 million for the period compares to \$3.4 million for the pcp (an improvement of \$1.4 million).
 - Revenue was 1.1% higher than the pcp in as reported terms (up 3.9% in constant currency terms).
 - Bricks and mortar comparable store sales for the region were up 0.7% on the pcp.
 - Ecommerce revenues were up 19.5% in constant currency terms compared to the pcp and is now 9.6% of total regional sales.
 - Total comparable retail sales (comparable stores and ecommerce added together) for the region were up 5.8% compared to the pcp.
 - Gross margins improved 110 basis points from 48.2% in the pcp to 49.3%.
 - Regional CODB was up on the pcp as investments were made in growth areas like ecommerce and RVCA.
- In Europe
 - EBITDAI of \$1.3 million for the period compares to \$3.8 million for the pcp.
 - Revenue was 3.7% lower than the pcp in as reported terms (down 6.1% in constant currency terms). The region was impacted by a revenue shift in the shipping pattern between the halves.
 - Bricks and mortar comparable store sales for the region were down 2.3% on the pcp.
 - Ecommerce revenues were up 15.1% in constant currency terms compared to the pcp and is now 5.5% of total regional sales.
 - Total comparable retail sales (comparable stores and ecommerce added together) for the region were down 0.3% compared to the pcp.
 - Gross margins were up 100 basis points on the pcp (50.7% vs 51.7%).

Operating and Financial Review (continued)

Group performance including significant items and including discontinued operations

EBITDAI of \$10.8 million for the period compares to \$21.9 million for the pcp. In terms of EBITDAI, the current period includes significant items expense of \$8.5 million compared to a restated expense of \$7.4 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. Effective 1 April 2017 the Group sold Tigerlily. The pcp results of Tigerlily have been reported in these financial statements as discontinued operations.

Significant items

Pre-tax significant items for the half-year ended 31 December 2017 was a net expense of \$8.5 million which decreased EBITDAI.

Pre-tax significant items for the half-year ended 31 December 2016 was a restated net expense of \$7.4 million which decreased EBITDAI.

Refer to note 3 of the half-year financial statements for detailed disclosure in relation to these items.

Depreciation and amortisation expense excluding discontinued operations

Depreciation and amortisation expense of \$13.6 million decreased 3.5% in reported terms compared to the pcp (\$14.1 million).

Net interest expense

Net interest expense decreased from \$16.4 million in the pcp to \$13.5 million. On a constant currency basis net interest expense was \$15.9 million in the pcp.

Income tax expense

The statutory loss before tax for the half-year ended 31 December 2017 was \$16.2 million with an income tax expense of \$2.2 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 \$2.8 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 \$158.5 million represents 16.5% of the prior twelve months' sales stated at half-year end exchange rates, being 1.4% higher compared to the pcp of 15.1% when excluding Tigerlily. Working capital as a percentage of sales at December 2017 compared to December 2016 is higher as result of higher inventory purchases when compared to the pcp.

Cash inflow from operating activities was \$33.0 million, compared to an inflow of \$27.3 million in the pcp. Receipts from customers net of payments to suppliers and employees were \$39.0 million compared to \$44.2 million in the pcp, primarily due to the prior year including cash flows for Tigerlily.

Cash outflow from investing activities of \$17.2 million includes payments for capex of \$16.1 million. The prior year had cash outflow from investment activities of \$13.1 million including payments for capex of \$12.1 million.

Net debt decreased from \$148.6 million as at 30 June 2017 to \$138.6 million as at 31 December 2017.

Matters subsequent to the end of the half-year

On 5 January 2018 the Company announced that it had entered into a Scheme Implementation Deed with Boardriders, Inc. (Boardriders) under which Boardriders has agreed to acquire all of the shares in the Company, other than those already owned by its related entities, at a price of \$1.00 per share in cash, via a scheme of arrangement (the Scheme).

Boardriders is controlled by funds managed by Oaktree Capital Management, L.P. (Oaktree). Oaktree already holds 19% of the shares in the Company, and is one of the Group's two senior lenders. Oaktree's shares will not be acquired under the Scheme, and Oaktree will not vote its shares on the resolutions to approve the Scheme at the Scheme meeting.

The Scheme consideration of \$1.00 per share represents an implied enterprise value (EV) of \$380 million.

A Scheme Booklet was issued on 14 February 2018, containing information relating to the Scheme, the independent expert's report which concludes the Scheme is fair and reasonable and therefore in the best interests of the Company's shareholders and the reasons for the Company Directors' unanimous recommendation in favour of the Scheme. Company shareholders will be given the opportunity to vote on the Scheme at a Scheme meeting to be held on 28 March 2018.

Subject to the conditions of the Scheme being satisfied, the Scheme is expected to be implemented in April 2018. These dates are indicative and subject to change. There is no guarantee that the Scheme will be implemented.

All transaction costs incurred during the half-year ended 31 December 2017 relating to the above Scheme and associated due diligence have been included in significant items (refer note 3 half-year financial statements - Transaction and due diligence expenses). Further costs of approximately \$2 million are estimated to be incurred in the second half of the financial year irrespective of the Scheme meeting outcome on 28 March 2018.

If the Scheme does not complete, the Scheme Implementation Deed has certain provisions under which a break fee of \$1.6 million becomes payable to Boardriders. These provisions include, for example, a competing proposal being announced and subsequently completed.

If, and only if, the Scheme completes, the following contingent expenses and/or payments are estimated:

- Acceleration of a non-cash accounting charge (approximately \$2.3 million) as a result of options issued pursuant to the Group's Long Term Incentive plan lapsing as a result of the Scheme completing. No awards will vest under the plan as a result of the Scheme completing.
- Accelerated write off of all unamortised capitalised borrowing costs (approximately \$6.5 million and all non-cash) because the Term Loan and the asset-based multi-currency credit facility will be fully repaid and/or refinanced by Boardriders as part of the Scheme.
- Cash payments of approximately \$21 - \$22 million, all of which are only payable if the Scheme is approved and thus will be the responsibility of Boardriders. These contingent payments primarily include a transaction fee to the Group's financial advisor (Goldman Sachs), run-off insurance, employee transaction bonuses and a retention program (initiated by/at the request of Boardriders relating to the integration of the two businesses and requiring employment with Boardriders for a specified period of time post Scheme implementation).

The Directors consider the contingent amounts noted above are not material to shareholders (other than Oaktree), since the non-cash accounting charges only accelerate on Scheme completion and any cash payments are the responsibility of Boardriders.

None of the costs relating to the second half of the financial year, nor the contingent costs dependent on the Scheme being implemented, nor the contingent break fee have been accounted for in the half-year ended 31 December 2017 financial statements as it is not certain that these costs will be incurred.

Other than the item noted above, there has not arisen in the interval between the end of the financial half-year and the date of this report any item, transaction or event of a material and unusual nature that would be likely, in the opinion of the Directors, 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

Consistent with the Company announcement on 5 January 2018, the Company confirms that it expects the Group's FY18 EBITDA (excluding significant items) to be in a range between last year's EBITDA of \$51.1 million and \$54 million, subject to reasonable trading conditions and currency markets remaining relatively stable. The Group continues to have a significant bias of second half earnings to the month of June in the Americas and trading in that month remains key to achieving the Group's full year expectations.

With respect to the Scheme Implementation Deed with Boardriders announced on 5 January 2018, if the Scheme is implemented, it is intended that quotation of Billabong International Limited shares on the Australian Securities Exchange (ASX) will be terminated and the Company will be removed from the official list of the ASX on or around the business day immediately following the implementation date. From that date the Company will no longer have reporting requirements to the ASX.

If the Scheme is implemented, the existing Directors will resign and the Board will be reconstituted in accordance with the instructions of Boardriders after the implementation date.

Likely developments and expected results of operations (continued)

If the Scheme is implemented, Boardriders will indirectly own and control all of the Billabong International Limited securities. The Directors have been advised that the intentions of Boardriders with respect to these matters are:

- If the Scheme is implemented, Boardriders intends to undertake a detailed review of the Group's operations covering strategic, financial and commercial operating matters to determine the optimum manner of integrating, operating and managing the combined business.
- Final decisions about any major changes to the future commercial operating plan and management organisation for the Group will be made by Boardriders following the completion of the post acquisition review described above and will be based on all material facts and circumstances at the relevant time.

If the Scheme is not implemented, the Directors intend to continue to operate in the ordinary course of the business, subject to the issues discussed in section 1.2 of the Scheme booklet. The Board considers that for the Company to continue as an independent entity with its existing strategy, it will become necessary for the Group to not only extend the maturity of its debt, but to materially reduce its debt. The Board and its advisers spent a significant amount of time exploring various alternatives which would enable the Group to reduce its debt to the level necessary to enable the existing debt to be refinanced and to fund the Group's ongoing strategy. The main alternatives will be (i) an equity raising (there are a number of challenges with any such equity raising); and/or (ii) further asset or brand sales, although asset sales would require a change in the Group's existing strategy and create significant uncertainty.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 9.

Rounding of amounts

The Company is of a kind referred to in 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.

The financial information that is not in compliance with Australian Accounting Standards contained within this Directors' Report have not been reviewed in accordance with Australian Auditing Standards.

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



Ian Pollard
Chair
Gold Coast, 23 February 2018



Auditor's Independence Declaration

As lead auditor for the review of Billabong International Limited for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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

K. Stubbins

Kristin Stubbins
Partner
PricewaterhouseCoopers

Sydney
23 February 2018

PricewaterhouseCoopers, ABN 52 780 433 757

*One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

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Consolidated income statement
For the half-year ended 31 December 2017

Notes	Half-year 2017 \$'000	Restated Half-year 2016 \$'000
Revenue from continuing operations	476,465	492,190
Cost of goods sold *	(227,598)	(241,857)
Other income	3,103	1,842
Selling, general and administrative expenses	(195,581)	(190,942)
Other expenses	(56,402)	(56,641)
Finance costs	(16,228)	(18,648)
Loss before income tax	(16,241)	(14,056)
Income tax expense	(2,159)	(3,887)
Loss from continuing operations	(18,400)	(17,943)
Profit from discontinued operations after income tax	---	4,972
Loss for the half-year attributable to the members of Billabong International Limited	(18,400)	(12,971)
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company	Cents	Cents
Basic earnings per share *	(9.3)	(9.1)
Diluted earnings per share *	(9.3)	(9.1)
Earnings per share for loss attributable to the ordinary equity holders of the Company		
Basic earnings per share *	(9.3)	(6.6)
Diluted earnings per share *	(9.3)	(6.6)

* Refer to note 5 correction of prior period error.

Consolidated statement of comprehensive income
For the half-year ended 31 December 2017

	Half-year 2017 \$'000	Restated Half-year 2016 \$'000
Loss for the half-year	(18,400)	(12,971)
Other comprehensive income/(expense)		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges, net of tax	362	5,305
Exchange differences on translation of foreign operations *	(1,849)	(15,870)
Net investment hedge, net of tax	4,097	9,244
Other comprehensive income/(expense) for the half-year, net of tax	2,610	(1,321)
Total comprehensive expense for the half-year attributable to members of Billabong International Limited	(15,790)	(14,292)
Total comprehensive (expense)/income for the half-year attributable to members of Billabong International Limited arises from:		
Continuing operations	(15,790)	(19,264)
Discontinued operations	---	4,972
	(15,790)	(14,292)

* Refer to note 5 correction of prior period error.

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 31 December 2017

	Notes	31 December 2017 \$'000	30 June 2017 \$'000	Restated 31 December 2016 \$'000
ASSETS				
Current assets				
Cash and cash equivalents		84,176	71,739	99,692
Trade and other receivables		134,180	169,325	137,206
Inventories		189,709	162,311	186,047
Current tax receivables		765	28	1,313
Other		15,563	18,315	18,138
Total current assets		424,393	421,718	442,396
Non-current assets				
Receivables		6,820	7,351	7,519
Property, plant and equipment		70,616	73,160	82,287
Intangible assets		64,054	57,918	175,145
Deferred tax assets		13,644	13,246	12,487
Other		3,392	4,731	5,596
Total non-current assets		158,526	156,406	283,034
Total assets		582,919	578,124	725,430
LIABILITIES				
Current liabilities				
Trade and other payables *	5	168,744	151,068	161,576
Borrowings		429	4,207	5,419
Current tax liabilities		5,596	5,054	3,406
Provisions		13,282	14,160	15,079
Total current liabilities		188,051	174,489	185,480
Non-current liabilities				
Borrowings		222,309	216,114	280,402
Deferred tax liabilities		---	---	329
Provisions		4,547	4,874	11,608
Other payables		7,524	7,403	9,341
Total non-current liabilities		234,380	228,391	301,680
Total liabilities		422,431	402,880	487,160
Net assets		160,488	175,244	238,270
EQUITY				
Contributed equity		1,094,274	1,094,274	1,094,274
Treasury shares		(20,179)	(20,302)	(20,302)
Option reserve		13,395	12,484	11,611
Other reserves *	5	(104,198)	(106,808)	(107,067)
Retained losses *	5	(822,804)	(804,404)	(740,246)
Capital and reserves attributable to members of Billabong International Limited		160,488	175,244	238,270
Total equity		160,488	175,244	238,270

* Refer to note 5 correction of prior period error.

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

Consolidated statement of changes in equity

For the half-year ended 31 December 2017

	Attributable to members of Billabong International Limited			Total equity \$'000
	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	
Balance at 1 July 2016	1,094,274	(114,109)	(720,876)	259,289
Adjustment on correction of error *	---	---	(6,399)	(6,399)
Restated total equity at 1 July 2016	1,094,274	(114,109)	(727,275)	252,890
Loss for the half-year	---	---	(16,050)	(16,050)
Adjustment on correction of error *	---	---	3,079	3,079
Restated loss for the half-year	---	---	(12,971)	(12,971)
Other comprehensive expense	---	(1,395)	---	(1,395)
Adjustment on correction of error *	---	74	---	74
Restated other comprehensive expense	---	(1,321)	---	(1,321)
Total comprehensive expense for the half-year	---	(1,321)	(12,971)	(14,292)
Transactions with equity holders in their capacity as equity holders				
Option reserve in respect of employee share plan	---	(358)	---	(358)
Deferred tax credit recognised directly in equity	---	30	---	30
	---	(328)	---	(328)
Restated balance at 31 December 2016	1,094,274	(115,758)	(740,246)	238,270
Balance at 1 July 2017	1,094,274	(114,626)	(804,404)	175,244
Loss for the half-year	---	---	(18,400)	(18,400)
Other comprehensive income	---	2,610	---	2,610
Total comprehensive income/(expense) for the half-year	---	2,610	(18,400)	(15,790)
Transactions with equity holders in their capacity as equity holders				
Option reserve in respect of employee share plan	---	1,008	---	1,008
Deferred tax credit recognised directly in equity	---	26	---	26
	---	1,034	---	1,034
Balance at 31 December 2017	1,094,274	(110,982)	(822,804)	160,488

* Refer to note 5 correction of prior period error.

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

Consolidated cash flow statement
For the half-year ended 31 December 2017

	Half-year 2017 \$'000	Half-year 2016 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of sales taxes)	549,085	586,830
Payments to suppliers and employees (inclusive of sales taxes)	(510,099)	(542,667)
	38,986	44,163
Interest received	159	130
Other revenue	3,898	3,944
Finance costs	(7,212)	(17,423)
Income taxes paid	(2,827)	(3,506)
Net cash inflow from operating activities	33,004	27,308
Cash flows from investing activities		
Payments for property, plant and equipment	(7,662)	(7,322)
Payments for finite life intangible assets	(8,413)	(4,789)
Payments for transaction costs from prior year sale of business	(1,239)	(1,004)
Proceeds from sale of property, plant and equipment	116	26
Net cash outflow from investing activities	(17,198)	(13,089)
Cash flows from financing activities		
Proceeds from borrowings	8,369	15,891
Repayment of borrowings	(11,350)	(18,119)
Net cash outflow from financing activities	(2,981)	(2,228)
Net increase in cash and cash equivalents	12,825	11,991
Cash and cash equivalents at the beginning of the half-year	71,739	89,171
Effects of exchange rate changes on cash and cash equivalents	(388)	(1,470)
Cash and cash equivalents at the end of the half-year	84,176	99,692

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

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:

Half-year 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	198,577	194,151	81,743	---	474,471
Third party royalties	---	---	---	1,294	1,294
Total segment revenue	198,577	194,151	81,743	1,294	475,765
EBITDAI	11,137	(2,528)	911	1,294	10,814
Less: depreciation and amortisation					(13,587)
Less: net interest expense					(13,468)
Loss before income tax					(16,241)
Segment assets	263,382	203,200	102,693	---	569,275
Unallocated assets:					
Deferred tax					13,644
Total assets					582,919
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	3,595	10,484	1,025	---	15,104
Half-year 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	231,339	192,093	84,887	---	508,319
Third party royalties	---	---	---	1,586	1,586
Total segment revenue	231,339	192,093	84,887	1,586	509,905
EBITDAI *	19,181	(2,296)	3,439	1,586	21,910
Less: depreciation and amortisation					(14,578)
Less: net interest expense					(16,416)
Loss before income tax					(9,084)
Segment assets	319,545	296,982	96,416	---	712,943
Unallocated assets:					
Deferred tax					12,487
Total assets					725,430
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	5,208	7,970	669	---	13,847

* Refer to note 5 correction of prior period error.

Note 1. Segment information (continued)

(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.

Half-year 2017	Asia Pacific	Americas	Europe	Rest of the World	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
From continuing operations including significant items					
Sales to external customers	198,577	194,151	81,743	---	474,471
Third party royalties	---	---	---	1,294	1,294
Total segment revenue	198,577	194,151	81,743	1,294	475,765
EBITDAI	11,137	(2,528)	911	1,294	10,814
Less: depreciation and amortisation					(13,587)
Less: net interest expense					(13,468)
Loss before income tax					(16,241)
Half-year 2016	Asia Pacific	Americas	Europe	Rest of the World	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
From continuing operations including significant items					
Sales to external customers	212,502	192,093	84,887	---	489,482
Third party royalties	---	---	---	1,586	1,586
Total segment revenue	212,502	192,093	84,887	1,586	491,068
EBITDAI *	13,715	(2,296)	3,439	1,586	16,444
Less: depreciation and amortisation					(14,084)
Less: net interest expense					(16,416)
Loss before income tax					(14,056)
Half-year 2016	Asia Pacific	Americas	Europe	Rest of the World	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
From discontinued operations including significant items					
Sales to external customers	18,837	---	---	---	18,837
Third party royalties	---	---	---	---	---
Total segment revenue	18,837	---	---	---	18,837
EBITDAI	5,466	---	---	---	5,466
Less: depreciation and amortisation					(494)
Profit before income tax					4,972

* Refer to note 5 correction of prior period error.

Note 2. 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.

	Half-year 2017 \$'000	Restated Half-year 2016 \$'000
(a) Income tax expense		
Current tax	2,665	1,440
Deferred tax	235	2,472
Adjustments of prior periods	(741)	(25)
	<u>2,159</u>	<u>3,887</u>
Income tax expense is attributable to:		
Loss from continuing operations	2,159	3,887
Profit from discontinued operations (note 4)	---	---
Aggregate income tax expense	<u>2,159</u>	<u>3,887</u>
Deferred income tax expense included in income tax expense comprises:		
(Increase)/decrease in deferred tax assets	444	2,142
(Decrease)/increase in deferred tax liabilities	(209)	330
	<u>235</u>	<u>2,472</u>
(b) Reconciliation of income tax expense/(benefit) to prima facie tax payable		
Loss from continuing operations before income tax expense *	(16,241)	(14,056)
Profit from discontinuing operation before income tax expense	---	4,972
	<u>(16,241)</u>	<u>(9,084)</u>
Tax at the Australian tax rate of 30%	(4,872)	(2,725)
Tax effect of amounts which are not (taxable)/deductible in calculating taxable income:		
Net exempt expense	(701)	313
Non-claimable credits	225	---
Sundry items	(1,375)	(686)
Other non-deductible permanent differences	1,928	843
	<u>(4,795)</u>	<u>(2,255)</u>
Difference in overseas tax rates	380	(230)
Over provision in prior years	(19)	(25)
Utilisation of prior year tax losses previously not recognised	(765)	(966)
Tax losses not recognised in current period	9,248	3,914
Temporary differences not recognised in current period	(368)	3,422
Foreign currency related items	(22)	27
Change in tax rates	(1,500)	---
Income tax expense	<u>2,159</u>	<u>3,887</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	<u>26</u>	<u>30</u>
(d) Tax expense/(benefit) relating to items of other comprehensive income		
Cash flow hedges	<u>336</u>	<u>1,733</u>

* Refer to note 5 correction of prior period error.

Note 3. Significant items

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

	Half-year 2017 \$'000	Restated Half-year 2016 \$'000
From continuing operations:		
<i>Significant items included in cost of goods sold</i>		
Inventory adjustment *	---	1,928
	---	1,928
<i>Significant items included in other income (note (a))</i>		
Legal settlement	(2,403)	---
	(2,403)	---
<i>Significant items included in selling, general and administrative expenses (note (b))</i>		
Redundancy costs	430	1,304
RVCA compensation expense	22	758
Logistics initiative transition costs	2,619	---
Legal settlement costs	716	---
Transaction and due diligence expenses	2,527	---
Sales tax provision	1,375	---
Strategy restructuring and other costs	3,211	2,462
	10,900	4,524
<i>Significant items included in other expenses</i>		
Loss from adjustment to contingent consideration	---	873
Divestment costs in relation to prior year divestment of immaterial operations	---	112
	---	985
Total significant items	8,497	7,437

* Refer to note 5 correction of prior period error.

Explanations for the 31 December 2017 significant items are listed below:

(a) Significant items included in other income

(i) Legal settlement

In the half-year ended 31 December 2017, the Company received a payment in settlement of a legal dispute and this is considered to be a significant item given its nature is outside of normal trading.

(b) Significant items included in selling, general and administrative expenses

(i) Redundancy costs

During the half-year ended 31 December 2017 as result of continued restructuring of the Group in line with the strategy restructuring plans, redundancy costs were incurred.

(ii) Logistics initiative transition costs

Supply chain reconfiguration costs have been incurred during the half-year ended 31 December 2017 as the Group develops a global approach to product logistics to reduce cost and improve speed to market and efficiency.

(iii) Legal settlement costs

In the half-year ended 31 December 2017, the Company incurred legal fees relating to a legal dispute for which the Company received a payment in settlement (as per section (a)(i) above). This is considered to be a significant item given its nature is outside of normal trading.

(iv) Transaction and due diligence expenses

On 5 January 2018 the Company announced that it had entered into a Scheme Implementation Deed with Boardriders, Inc. During the half-year ended 31 December 2017, the Company incurred costs in relation to the bid process. These costs are considered to be a significant item given their nature is outside of normal trading.

(v) Sales tax provision

During the half-year ended 31 December 2017, the Group recognised a liability that related to an uncertain tax position in the United States of America that arose as a result of clarification of a tax position by the regulator. The amount included in significant items relates to historical periods. The Group has engaged an external consultant to assist in estimating any liability with a further estimate expected by 30 June 2018.

(vi) Strategy restructuring and other 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.

Information on the significant items from 31 December 2016 are disclosed in the annual report for the year ended 30 June 2017.

Note 4. Discontinued operations

(a) Description

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 in the second half of the financial year ended 30 June 2017. The results of Tigerlily have been reported in these financial statements as discontinued operations for the half-year ended 31 December 2016.

Financial information relating to the discontinued operations for the half-year ended 31 December 2017 and the half-year ended 31 December 2016 is set out below. Refer to note 1 for the impact of the divestment on the operating segments.

(b) Financial performance

The financial performance presented is for the half-year ended 31 December 2017 and the half-year ended 31 December 2016.

	Half-year 2017 \$'000	Half-year 2016 \$'000
Revenue	---	18,837
Expenses	---	(13,865)
Profit before income tax	---	4,972
Income tax benefit	---	---
Profit after income tax of discontinued operations	---	4,972
Profit on sale, including transaction costs before income tax	---	---
Income tax expense	---	---
Profit on sale, including transaction costs after income tax	---	---
Profit from discontinued operations	---	4,972
<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	---	2.5
Diluted earnings per share	---	2.5

Note 5. 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 prior 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 that period 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. Details about the impact of these restatements on the annual financial statements for prior periods are disclosed in the annual report for the year ended 30 June 2017 in the working capital section (a) correction of error on page 52.

The adjustment of \$6.4 million was determined to relate to historical income statement periods before 1 July 2015. However, as \$3.1 million of this had been recognised as expense in the Interim Financial Report at 31 December 2016, it was necessary to restate the income statement for that period. The financial impacts of the restatements to the financial statements for the comparative interim period are:

Income statement changes

- The reversal of the expense recognised in the interim financial report at 31 December 2016 (presented in cost of goods sold) which was disclosed as a significant item (\$3.1 million), with an equivalent reduction of the loss for the half-year (no tax impact).

Balance sheet changes

- An increase of retained losses carried forward as at 1 July 2016 by \$6.4 million, a reduction of the loss for the half-year ending 31 December 2016 by \$3.1 million, an adjustment in other reserves of \$0.1 million and an increase of the retained losses as at 31 December 2016 of \$3.3 million.
- An increase in trade and other payables as at 31 December 2016 of \$3.2 million.

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

	31 December 2016 \$'000	Adjustment \$'000	Restated 31 December 2016 \$'000
Trade and other payables	(158,330)	(3,246)	(161,576)
Net assets	241,516	(3,246)	238,270
Retained losses	(736,926)	(3,320)	(740,246)
Other reserves	(107,141)	74	(107,067)
Total equity	241,516	(3,246)	238,270
Cost of goods sold (includes discontinued operations)	250,954	(3,079)	247,875
Loss for the half-year attributable to the members of Billabong International Limited	(16,050)	3,079	(12,971)

Note 6. Impairment of intangible assets

Critical accounting estimates and judgments

Estimated impairment of indefinite life intangibles

The Group tests annually, or when indicators of impairment arise, whether 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 (CGUs) have been determined based on value-in-use (VIU) calculations. These calculations require the use of estimates and judgements, in particular the achievement of forecast growth rates which are determined through a Board approved budgeting process.

(a) Impairment tests for brands

For the half-year report, detailed impairment testing is only performed for those brands or CGUs where there is an indication that the relevant assets may be impaired. At 31 December 2017 this was the case for the following CGU resulting in the calculation of the recoverable amount of the relevant CGU in line with the requirements of AASB 136 *Impairment of Assets*.

Carrying value	Brands	
	31 December 2017 \$'000	30 June 2017 \$'000
Kustom	3,852	3,852
	<u>3,852</u>	<u>3,852</u>

The impairment testing of the above CGU concluded that no impairment charge was required to be recognised for the half-year ended 31 December 2017.

(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 (VIU) calculations.

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

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

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

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

	Average EBITDA Growth Rate FY18-FY21 %	Headroom* \$'m	Discount rate %	Impact on headroom of +0.5% change in discount rate \$'m	Terminal growth rate %	Impact on headroom of -0.5% change in terminal growth rate \$'m	Impact on headroom of -10% change in EBITDA \$'m
Kustom	(2.1)	---	16.3	(1.5)	2.5	(1.4)	(2.2)

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

Note 7. Equity securities issued

(a) Treasury shares

Movements in treasury shares during the half-year	2017 Shares '000s	2017 \$'000
Opening balance at 1 July	(372)	(20,302)
Employee share scheme issue	31	97
Deferred tax credit recognised directly in equity	---	26
Closing balance at 31 December	<u>(341)</u>	<u>(20,179)</u>

Note 8. Dividends

The Board has not declared a final ordinary dividend for the half-year ended 31 December 2017, nor did it do so for the half-year ended 31 December 2016. The Dividend Reinvestment Plan (DRP) remains suspended.

Note 9. Fair value measurements

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 31 December 2017:

	Carrying amount		Fair value	
	31 December 2017 \$'000	30 June 2017 \$'000	31 December 2017 \$'000	30 June 2017 \$'000
Lease liabilities (current and non-current)	429	1,247	427	1,229
Term loan facility	222,309	216,114	228,402	223,876

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 31 December 2017 or 30 June 2017.

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 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 10. Related party transactions

(a) Transactions with other related parties

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

	Half-year 2017 \$	Half-year 2016 \$
<i>Expense reimbursement</i>		
Oaktree Capital Management, L.P	---	---
Centerbridge Partners, L.P	205,111	174,610
<i>Term loan amendment</i>		
Oaktree Capital Management, L.P	---	2,097,502
Centerbridge Partners, L.P	---	2,097,502

In the half-year ended 31 December 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 his appointment as Director on 3 July 2017, Elliott Weinstein requested to waive his board fees as his board duties are part of his responsibilities as a Managing Director at Centerbridge Partners, L.P.

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

	31 December 2017 \$	31 December 2016 \$
<i>Expense reimbursement payable</i>		
Oaktree Capital Management, L.P	---	---
Centerbridge Partners, L.P	184,548	14,800

(c) Loans from related parties

	Half-year 2017 \$	Half-year 2016 \$
<i>Oaktree Capital Management, L.P</i>		
Opening balance at 1 July	111,937,880	135,830,084
Interest charged	6,702,407	8,154,791
Interest paid in cash	(3,315,558)	(4,083,037)
Exchange differences	(1,123,696)	5,060,981
Closing balance at 31 December	<u>114,201,033</u>	<u>144,962,819</u>
Interest paid in kind	3,371,754	4,152,241
<i>Centerbridge Partners, L.P</i>		
Opening balance at 1 July	111,937,880	135,830,084
Interest charged	6,702,407	8,154,791
Interest paid in cash	(3,315,558)	(4,083,037)
Exchange differences	(1,123,696)	5,060,981
Closing balance at 31 December	<u>114,201,033</u>	<u>144,962,819</u>
Interest paid in kind	3,371,754	4,152,241

(d) Terms and conditions

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

Note 11. Contingencies

Details and estimates of maximum amounts of contingent liabilities as at 31 December 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 of the annual report for the year ended 30 June 2017.

(b) Letters of Credit

The Group had \$3.0 million letters of credit issued but undrawn as at 31 December 2017. The letters of credit related to standby letters of credit for various beneficiaries including, but not limited to, retail landlords. All letters of credit are part of the ordinary course of business.

(c) Supply chain finance facility

The Group has a supply chain finance facility (\$19.3 million) which is credit enhanced under the Bank of America Merrill Lynch asset-based lending facility. The net amount available for drawing as disclosed in note 13 of the annual report for the year ended 30 June 2017 is after allowing for the supply chain finance facility. Amounts payable to suppliers under the supply chain finance facility are included under trade and other payables in current liabilities in the balance sheet and form part of working capital.

(d) Contingent liability associated with terminated agreement

During the half the Company resolved the contingent liability associated with a terminated agreement as disclosed in note 30 of the annual report for the year ended 30 June 2017.

(e) RVCA compensation

Under the terms of a contract with the founder of RVCA, announced to the market on 6 February 2014, the financial aspects of the agreed contractual extension include a performance related component for the period to 30 June 2018. This will become a cash item only if the required targets under the agreement are met. As at 31 December 2017 the targets are unlikely to be met.

(f) Scheme Implementation Deed with Boardriders, Inc

Refer to note 12 Events occurring after the balance sheet date.

Note 12. Events occurring after the balance sheet date

On 5 January 2018 the Company announced that it had entered into a Scheme Implementation Deed with Boardriders, Inc. (Boardriders) under which Boardriders has agreed to acquire all of the shares in the Company, other than those already owned by its related entities, at a price of \$1.00 per share in cash, via a scheme of arrangement (the Scheme).

Boardriders is controlled by funds managed by Oaktree Capital Management, L.P. (Oaktree). Oaktree already holds 19% of the shares in the Company, and is one of the Group's two senior lenders. Oaktree's shares will not be acquired under the Scheme, and Oaktree will not vote its shares on the resolutions to approve the Scheme at the Scheme meeting.

The Scheme consideration of \$1.00 per share represents an implied enterprise value (EV) of \$380 million.

A Scheme Booklet was issued on 14 February 2018, containing information relating to the Scheme, the independent expert's report which concludes the Scheme is fair and reasonable and therefore in the best interests of the Company's shareholders and the reasons for the Company Directors' unanimous recommendation in favour of the Scheme. Company shareholders will be given the opportunity to vote on the Scheme at a Scheme meeting to be held on 28 March 2018.

Subject to the conditions of the Scheme being satisfied, the Scheme is expected to be implemented in April 2018. These dates are indicative and subject to change. There is no guarantee that the Scheme will be implemented.

All transaction costs incurred during the half-year ended 31 December 2017 relating to the above Scheme and associated due diligence have been included in significant items (refer note 3 half-year financial statements - Transaction and due diligence expenses). Further costs of approximately \$2 million are estimated to be incurred in the second half of the financial year irrespective of the Scheme meeting outcome on 28 March 2018.

If the Scheme does not complete, the Scheme Implementation Deed has certain provisions under which a break fee of \$1.6 million becomes payable to Boardriders. These provisions include, for example, a competing proposal being announced and subsequently completed.

If, and only if, the Scheme completes, the following contingent expenses and/or payments are estimated:

- Acceleration of a non-cash accounting charge (approximately \$2.3 million) as a result of options issued pursuant to the Group's Long Term Incentive plan lapsing as a result of the Scheme completing. No awards will vest under the plan as a result of the Scheme completing.
- Accelerated write off of all unamortised capitalised borrowing costs (approximately \$6.5 million and all non-cash) because the Term Loan and the asset-based multi-currency credit facility will be fully repaid and/or refinanced by Boardriders as part of the Scheme.
- Cash payments of approximately \$21 - \$22 million, all of which are only payable if the Scheme is approved and thus will be the responsibility of Boardriders. These contingent payments primarily include a transaction fee to the Group's financial advisor (Goldman Sachs), run-off insurance, employee transaction bonuses and a retention program (initiated by/at the request of Boardriders relating to the integration of the two businesses and requiring employment with Boardriders for a specified period of time post Scheme implementation).

The Directors consider the contingent amounts noted above are not material to shareholders (other than Oaktree), since the non-cash accounting charges only accelerate on Scheme completion and any cash payments are the responsibility of Boardriders.

None of the costs relating to the second half of the financial year, nor the contingent costs dependent on the Scheme being implemented, nor the contingent break fee have been accounted for in the half-year ended 31 December 2017 financial statements as it is not certain that these costs will be incurred.

Other than the item noted above, there has not arisen in the interval between the end of the financial half-year and the date of this report any item, transaction or event of a material and unusual nature that would be likely, in the opinion of the Directors, 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 13. Summary of significant accounting policies

This interim financial report for the half-year reporting period ended 31 December 2017 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Billabong International Limited (the Company) during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*. The financial report covers the consolidated entity consisting of Billabong International Limited and its subsidiaries (the Group or consolidated entity). The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

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

A number of new or amended standards 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.

(b) 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 2018 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
<i>AASB 9 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. 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 not have a material impact to the Group. Also 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 or its hedging arrangements.</p> <p>The Group has decided not to early adopt AASB 9.</p>	30 June 2019
<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 and AASB 111 which covers construction contracts. 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 identified the following areas that are likely to be affected, however they are not expected to impact the Group in a material way:</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. • The presentation of amounts collected on the behalf of third parties, such as postage and handling, which are remitted to the third party. • Granting an option to purchase additional goods/services that provide material right to the customer (loyalty incentives). <p>Further work is to be performed to determine the nature of the freight services provided especially future plans in relation to the sales via the Omni-Channel platform initiative and whether freight revenue should be presented gross or offset costs.</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. 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 as at 30 June 2017 non-cancellable operating lease commitments held by the Group of \$201.3 million, it is expected that the impact of this standard will be significant. However, 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.</p> <p>The Group is still currently evaluating the impact of the new standard and if the Scheme Implementation Deed is not approved by Shareholders in March 2018 the new standard project implementation will become more of a focus for the Group. The Group has decided not to early adopt AASB 16.</p>	30 June 2020

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 10 to 25 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-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.

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



Ian Pollard
Chair

Gold Coast
23 February 2018



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Billabong International Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected explanatory notes and the directors' declaration for Billabong International Limited. The consolidated entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Billabong International Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au



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

Conclusion

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

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

K. Stubbins

Kristin Stubbins
Partner

Sydney
23 February 2018