BILLABONG INTERNATIONAL LIMITED ABN 17 084 923 946

BILLABONG

FULL FINANCIAL REPORT SHAREHOLDER REVIEW 2013/2014

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STOCK EXCHANGE LISTING
Billabong International Limited shares are listed on the Australian Securities Exchange (ASX). The home branch is Sydney.

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CHAIRMAN'S REPORT

In the 2013/14 financial year, three linked sequences of events reset Billabong's course after a long period of uncertainty, and together provide the foundations for the long term success of the Company.

The first event was the recapitalisation agreement with cornerstone investors Centerbridge and Oaktree announced in September 2013 that led to the rights issue and share placement in early 2014, collectively resolving the ownership of the Company, underpinning the balance sheet and substantially reducing our net debt.

The second was the appointment of Neil Fiske as our CEO in September 2013 and the subsequent internal and external appointments to complete his team of direct reports.

The third was Neil's announcement in December 2013 of his seven-part turnaround strategy and the subsequent progress in its implementation.

There is now clarity of purpose across Billabong globally as we take on the considerable challenge of rebuilding the business to support our world-class brands.

In this, my second report to shareholders, I have detailed these developments, as they are the foundations for the long-term success of Billabong.

RECAPITALISATION OF THE COMPANY

At our Annual General Meeting in December 2013, I detailed to shareholders the transactional process the Company had stepped through to underpin its financial stability and therefore its future. This included the sale of DaKine to the Altamont Consortium and the Board's decision to recommend to shareholders the Centerbridge and Oaktree consortium's (C/O or C/O consortium) unconditional refinancing proposal over that of Altamont.

Among the key rationale for this recommendation was that:

- The debt component of the C/O proposal provided longer term funding over six years, lower interest rates and greater flexibility.
- The equity component of the proposal ensured that all shareholders were invested in the same class of equity, and that the business had the financial flexibility it required with lower overall risk of future financial constraints.
- Importantly, the proposal provided an opportunity for existing shareholders to acquire shares at 28 cents through a rights issue, compared with the 41 cent price for the placement to C/O.
- Finally the agreement with the C/O consortium brought to us a CEO in Neil Fiske who had proven brand, retail and turnaround experience.

Announced to the market and shareholders on 19 September 2013, and subsequently approved by shareholders, the recapitalisation agreement brought stability to Billabong for the first time in well over a year.

It was also the launch point for a period of significant change and renewal across the Group, including at Board level.

BOARD CHANGES

Following the agreement with C/O, Altamont nominees Jesse Rogers and Keoni Schwartz stood down from the Board. I wish to acknowledge the constructive and professional manner in which they and Altamont conducted all their interactions with the Group.

After six years as a Director, Tony Froggatt also retired from the Board as did Collette Paull, a Board member since the Billabong float in 2000.

I wish to thank Tony for his contribution, particularly as the Company navigated change and uncertainty, and to acknowledge the service of Collette, not only as a Director but also as one of Billabong's founding employees and most passionate advocates.

Joining the Board last September were Jason Mozingo and Matt Wilson. Both are based in the US, one of our largest and most important markets.

Jason is a Senior Managing Director at Centerbridge Partners and leads the firm's retail and consumer investment efforts.

Matt is a Managing Director at Oaktree Capital Management and leads their retail and consumer investing efforts, including investments in the apparel, retail, consumer products, food, beverage and restaurant sectors.

Along with fellow Directors Gordon Merchant, Sally Pitkin, Howard Mowlem, Neil Fiske and myself, we now have in place a Board that brings together an appropriate mix of brand, apparel, retail and financial expertise; together with an international outlook. I am delighted with the way the new Board has come together in a short period of time and is working together very constructively and with unity of purpose.

A SOUND FINANCIAL BASE

Following shareholder approval in January 2014, the Company conducted an A$50 million rights issue.

Under the offer, eligible shareholders were invited to participate, pro-rata to their existing holdings, by subscribing for three new Billabong ordinary shares for every eight existing Billabong ordinary shares at a price of A$0.28 per new share. This price compared favourably to A$0.41 per share for the placement to the C/O Consortium.

The offer attracted strong demand, with eligible institutional shareholders electing to take up approximately 95% of the new shares available to them and eligible retail shareholders 77%, with the shortfall being taken up in subsequent book builds.

This rights offer, along with the placement to the C/O Consortium and its long term refinancing package, provided the Group a significantly restructured and solid balance sheet and the financial headroom to undertake the strategic turnaround.

Pleasingly the successful rights offer provided our existing shareholders, including our retail shareholders, an opportunity to participate in that turnaround.
A new strategy and business simplification.

At our Annual General Meeting in December, little more than 12 weeks after he commenced, CEO Neil Fiske detailed his seven-part turnaround strategy.

Neil provides more detail on this strategy in his CEO Report but it is appropriate that I provide an overview as to its impact to date across the Group.

In the first week of his appointment, I travelled with Neil and our CFO Peter Myers to our operations in the United States, Europe and Australia.

For Peter and I, who along with the rest of the Board and management team had been totally focused on securing the Company's future since we arrived at Billabong less than a year earlier, it was also our first opportunity to travel to and meet with the team in the US and Europe.

In those first meetings Neil articulated to our employees a path ahead, a case for change and a commitment to our brands' core values.

The brand founders of Billabong, RVCA, Element and Von Zipper have all committed to stay with the Company and endorsed Neil's strategy. Former surfing world champion Joel Parkinson also re-signed to Billabong along with highly regarded teen surfer Jack Robinson, who chose Billabong over offers from our competitors.

Within a few months of the public announcement of the seven-part strategy in December 2013, Neil had put in place a new global organisational structure and executive team to align with the new "brand led" strategy.

This has meant a significant change for the organisation, moving away from the regionally dominant structure that had been in place at Billabong for many years and that had inhibited both the development of global strategies for our brands and structural efficiencies for the business.

There has been significant and necessary structural and personnel change but throughout that process there has remained a continued focus on our customers and their needs. But let's be clear – Billabong has to change and there remains considerable change ahead if we are to restore the fortunes of this company.

To date our changes have included a healthy mix of internal appointments and promotions and since January this year we have made more than 65 new external appointments globally, with Billabong regaining a position as a preferred employer in our industry sector.

It is hugely encouraging to see the growing engagement and enthusiasm of our people across both our large and smaller brands, and on behalf of the Board I want to acknowledge and thank them for their efforts over the last year.

Among the structural changes in the last year were the sale of the Canadian-based retail chain West 49 and the sale of our majority shareholding in multi-brand online retailer SurfStitch and our wholly owned ecommerce site, Swell.

The rationale for these transactions is part of our "mono brand before multi brand" strategy, especially where we lack scale.

These transactions have been managed in a constructive manner that has seen us retain wholesale relationships with the respective business' new owners.

OUTLOOK AND DIVIDEND

In putting together my first Chairman's report in September 2013, I was, for the first time in many months, in a position to tell our shareholders who our cornerstone investors and CEO would be, how our balance sheet would be repaired, the steps needed to achieve that and how it paved the way for a new strategic direction.

Writing 12 months on, the Group is, through these developments, in a far, far stronger position.

Yet as noted earlier, the need for change remains and the scale of the challenge before us is substantial. Collectively, our Asia-Pacific and European operations continue to perform broadly in line with our expectations, however we continue to face major issues in the Americas. In this important market, we are making sound progress with Billabong and RVCA, but continue to address the effects of a number of legacy issues following the Group's period of uncertainty, as well as macroeconomic challenges in key market segments such as Canada.

Across the Group, all the changes that have taken place and the restructuring and strategic initiatives that will continue for some time yet, will take time to flow through to the financial results.

No dividend was paid in respect of the 2014 financial year, nor does your Board anticipate there will be one in respect of the 2015 financial year. We do however have absolute confidence in the strategy that has been set out and the progress that has been made to date.

What has been perhaps most remarkable in the last 12 months, is that for all the uncertainty that preceded it, our brands have shown an incredible resilience globally. The fact that we have seen pockets of growth during that period is a clear pointer to their strength and potential.

That brand resilience, along with a clear strategy and strong alignment across the Group, are the foundations for our confidence regarding Billabong's future.

– Ian Pollard

CEO REPORT

Billabong today is a very different organisation to the one I joined as CEO in September 2013.

At that time, the just announced refinancing agreement with Oaktree and Centerbridge had solidified the Group's finances and provided a stable platform to reform and rebuild the business. However, following on from a protracted period of takeover activity and recapitalisation efforts, strategic missteps and significant structural changes in the industry, the wider business was traumatised.

At the heart of the Group is a portfolio of powerful, distinctive action sports brands with passionate people behind them. Billabong though desperately needed to execute a turnaround of what had become an overly complex and heavily regionalised business that had lost focus. Simply put, we were trying to do too many things and doing none of them particularly well.

Achieving the turnaround required three key components to quickly be put in place.

- A clear strategy focused on "fewer, bigger, better",
- An organisational structure and management team that could execute on that strategy, and
- A capital structure that provided stability and room to reshape the business.

In his Chairman's Report, Ian Pollard has focused on how that capital structure was successfully implemented with strong shareholder support.

In turn I'll direct my comments to both the strategy we have put in place and the revamped global management team that has been built to execute it.

At the Annual General Meeting in December 2013, I outlined our seven-part turnaround strategy. Further detail on the strategy and implementation progress was provided at both the 2014 February half year and August full year results presentations. Full materials are available on our investor website to provide shareholders with a complete overview of our direction (www.billabongbiz.com).

The seven parts of our strategy are now the foundation of everything we do. They provide clarity, consistency and focus to the organisation at all levels across the globe. This is our agenda not just for this year, but for the next five years. To summarise:

1. **Brand.** Our fundamental (re)orientation is toward building strong global brands. We put the brand view first in everything we do. That means focusing on the core action sports customer, holding ourselves to the highest standards of brand integrity, authenticity and uniqueness. It also means treating our brands differently depending on their growth profile and role in the portfolio. We have put significant focus and investment on growing our big three brands of Billabong, RVCA and Element, while creating an environment that allows smaller brands more operating autonomy and access to growth investment as they accelerate.
2. **Product.** We have always had great design. What we have lacked is strong merchandising. As a result, our product lines traditionally have been too wide and shallow in their depth of buy, which means we are quickly out of our best sellers and have a long tail of leftovers at season end. With our "merchant front end" and "concept to customer" initiatives, we are narrowing our focus to fewer, bigger, better styles and focusing our design efforts more strategically on the areas where we can win. We have invested substantially in our merchandising and design talent around the world, allowing us to build strong global brands that are still regionally responsive and close to their customers.
3. **Marketing.** The mantra of fewer, bigger, better applies to marketing as well. We are installing new brand marketing disciplines into the business to create more impact, tighter alignment to our product strategies, and better story telling. We are also shifting our mix into digital media and customer relationship management in order to reach our young target consumers more directly, as well as putting more investment behind our faster growing brands. Our athletes and ambassadors keep us connected to the authentic core, while extending our major brand followers globally to over 12.5 million.
4. **Omni-Channel.** Our consumers shop in a rapidly evolving multi-channel world. We see the potential to dramatically accelerate our direct to consumer omni-channel business, knowing that these customers are looking for a seamless brand experience across our stores and digital commerce sites. We will roll out this strategy in a manner that expands brand overall and is complementary to our core wholesale channel. Our stated priority is toward mono-brand formats and websites. We remain committed to quality distribution through better channels and core specialty accounts. With the sale of our interests in SurfStitch and Swell, we now have control of our mono-brand ecommerce sites and are in a position to invest behind their tremendous potential.
5. **Supply Chain.** We are undertaking a dramatic transformation of our supply chain, from a fragmented and inefficient regional structure to a global operation configured for speed to market, faster inventory turn, and substantially lower costs. We have identified over $20 million in profit improvement opportunity in the supply chain over the coming years and have invested in a global leadership team to go after it.
6. **Organisation.** The Group has put in place a new organisational structure aligned to the strategy, while completely revamping the global executive management team. Since January, we have made over 65 new external appointments globally and have also promoted high calibre talent internally. We continue to pay for the increases in capability with headcount reduction and productivity gains in other areas.
7. **Financial discipline.** We have balanced necessary investment in the business by ensuring it is funded through improving efficiency and taking out costs across the Group. We see the potential for further cost reductions to fund our marketing war chest, and will maintain a strict pay-as-you-go discipline.

The turnaround agenda is a mix of offence and defence - ensuring our brands are generating growth while having the operational structure and cost efficiencies to support them.

Having laid out this strategy in December, we moved quickly and boldly to build an organisation aligned to the new direction. We re-organised into essentially three groups: major brands, regions and global functions.

For the major brands of Billabong, Element, and RVCA, we created global brand organisations focused on demand creation (design, merchandising, and marketing). For the first time, we recruited global brand leaders for the big three to work alongside the brand founders.

At the regional level, we refocused the traditional structure into selling, service, and go to market organisations that are highly attuned to the needs of their customers. Regional leaders also have the responsibility for growing the emerging brands within their geography.

On the operational axis, we organised into global functions for finance, HR, supply chain, IT, direct to consumer platforms and global operations. Our goal in these functions is to "build it once, build it right" to drive cost savings, scale benefits and functionality gains.

All together, this is a fundamentally new organisational structure and leadership team. With the exception of our CFO Peter Myers, nine out of ten members of the senior team have been appointed to their respective roles in the last year.

Reflecting back on the year, we have made a lot of progress. Among a long list of accomplishments, we:

- Recapitalised the company
- Secured cornerstone investors who fully back our plan
- Detailed our multi-year turnaround strategy
- Re-organised the company along brand, regional and functional lines
- Installed a new leadership team
- Populated the organisation with new talent while promoting from within
- Simplified the business and narrowed our focus with the sale of West 49, Surf Stitch and Swell
- Regained control of our mono-brand websites
- Restructured Europe to profitability and grew Asia-Pacific
- Invested in brands Billabong and RVCA, with very encouraging early results with 2015 order books ahead of the prior year in the United States (which for Billabong is the first growth we have achieved for several years)
- Moved Chile and Peru to a distributor model and began the restructuring of Brazil
- Re-signed our founders and bolstered our phenomenal team of athletes and brand ambassadors while increasing our social media reach by over three million, or 20%, in under six months
- Hosted the most watched surf event ever (the 2014 the Billabong Tahiti Pro). The record number of global viewers highlights that participation and interest in actions sports continues to grow and that our brand remains at the forefront of the industry
- Paid for our investments in capability and brand with cost savings and overhead reductions in other areas
- Gave the organisation new focus, energy and conviction

Still, we recognise that a turnaround of this scale takes time, particularly given the long lead times in the business, and that much more needs to be done.

While we have had some early success, the scale of change, the breadth of challenges and the effort and focus required to build shareholder value has not diminished.

We operate in a highly competitive sector, which in recent years has been shaken to its core through structural change. We are impacted globally by the vagaries of local economies and retail confidence. Our Americas business continues to face headwinds in Canada and Brazil and as we rebuild the great Element brand in North America – where Element has not enjoyed the same success as in Europe in recent years.

The good news is that for the first time in a number of years, the road ahead is clear. We have powerful authentic brands with growth potential, loyal customers, and passionate, dedicated employees who live their brand every day. And now, we have the strategy, balance sheet, talent and resources to win.

– Neil Fiske

COMPANY OVERVIEW

Billabong International employs more than 4,000 people globally.

Founded by Gordon Merchant in 1973 by the world-class breaks at Burleigh Heads, Billabong's headquarters remain just down the road on the Gold Coast, Australia where it all began. With major operations in Irvine, California and Hossegor, France the Group's product is now available across 100 countries.

Billabong has been built on premium quality, innovation and forever listening to surfers, whatever shore they're standing on.

Our heritage of nurturing and encouraging the best talent means that every day Billabong is in the water with world champions along with those simply paddling out to start their day with a surf.

From Teahupoo in Tahiti to Pipeline in Oahu, Hawaii, we also back some of surfing's most exhilarating and iconic competitive events through to local competitions for groms who aspire to one day be there.

Over the last decade we've been joined by a suite of brands whose founders and participants are every bit as passionate about what they do. These are world-class brands in RVCA, Element, Sector 9, Von Zipper, Honolua, Xcel, Kustom, Palmers and Tigerlily.

They're brands that are uniquely connected to the communities and lifestyles they represent, be it through experiences, events or social media, where Billabong, RVCA and Element alone now have over 12.5 million followers globally.

Billabong's total sales exceed $1 billion annually.

Detailed financials are contained in this Annual Report but we've also provided a high level overview over the following pages.

FINANCIAL OVERVIEW

The Group (comprised of Billabong International Limited and the entities it controlled at the end of, or during, the year ended 30 June 2014) made a Net Loss after Tax for full-year to 30 June 2014 of $233.7 million, including significant items and discontinued businesses. This compared to a loss of $859.5 million for the previous corresponding period ("pcp"). On the same basis, EBITDA was a loss of $52.3 million.

Included in the FY14 result are $146 million of pre-tax significant items, including refinancing, restructuring and redundancy costs across all of our operations, non-cash impairment charges and fair value adjustments plus non-cash tax adjustments of more than $60 million.

Billabong's portfolio of assets has also changed since the FY13 result with the sale of the DaKine brand in July 2013, the exit of virtually all of the Group's 48.5% interest in Nixon, and the sale of its Canadian retail chain, West 49. Since the end of the FY14 financial year the Group also announced the completed sale of both its 100% ownership of Swell.com in North America ("Swell") and its 51% stake in SurfStitch.com in Australia and Europe ("SurfStitch").

Excluding the discontinued businesses (but inclusive of SurfStitch and Swell), global sales in FY14 were $1.1 billion, up 1.5% in AUD terms. On the same basis, EBITDA was a profit of $52.5 million, down $18.6 million on the pcp.

On a pro forma basis, taking into account the announced sale of SurfStitch and Swell, the EBITDA result is a profit of $60.3 million (again excluding significant items and discontinued businesses).

On a pro-forma basis (excluding SurfStitch and Swell), the businesses that the Company will own going forward generated $1.02 billion in revenue in FY14.

REGIONAL OVERVIEW

AMERICAS

The Americas has operated in a challenging environment with revenues down 9.9% for the year in local currency terms. The period of corporate upheaval in 2013 and overhanging problems have hit this region particularly hard, the effects of which continue to impact financial performance.

The Group is systematically addressing those issues and seeing early signs of improvement.

Coming into FY15, Billabong forward orders are ahead of the prior period for the region, as are RVCA, while a restructured Element team under Frank Voit's leadership is focused on rebuilding brand performance in the key North American marketplace.

The second half of the financial year was heavily impacted by Canada, with second half wholesale sales down US$3.9 million on the pcp, and by Brazil, where wholesale sales for the latest half were down US$6.5 million on the pcp.

Retail bricks and mortar revenues for North America were driven down in part by store closures. Like for like store sales were down 6% for the half, reflecting weak US retail store traffic data across the industry.

ASIA-PACIFIC

In the Asia-Pacific region sales for the year were up 1.1% with the second half sales growing 4.5% on a constant currency basis, compared to the pcp. Like for like store sales were also stronger in the second half, up 2.3% compared to just 0.6% in the first half. Regional overheads were down by $10.2 million for the year compared to the pcp. Despite some impact on gross profit margins from a lower Australian dollar during the middle of the year, overall EBITDA for the year was up $2.7 million or 7.8% on a constant currency basis.

EUROPE

In Europe the operation has been right sized into a smaller more stable business. A tighter focus on quality customers, a reduced reliance on "close out" sales as we begin to get inventories under control and a significant reduction in overheads have delivered a more stable earnings performance after years of decline. While Europe reported an overall EBITDA loss in FY14, after excluding the SurfStitch start-up losses and Europe's allocation of global overhead, the region generated an EBITDA profit of $5.2 million, up $1 million on the pcp. Like for like store sales grew 5.9% on the pcp.

SUSTAINABILITY & SUPPLY CHAIN
– A LONG TERM COMMITMENT

A commitment to sustainability and a connection with the communities in which we operate sits within the core of all our brands. It's a commitment driven by our brand founders and the people who work here, and is aligned with the expectations of those in our wider community and shareholders.

As a business we've also had a long-term focus on ensuring that from the factory floor to our retail outlets we have measurable benchmarks around a socially responsible supply chain and the health and safety of all.

As the Group undertakes a global turnaround of operations, we've also begun to undertake a review of policies, relationships and approach to sustainability, supply chain and community engagement.

Our overall aim is to build on what been achieved before, avoid complacency and ensure a thriving culture that sees our brands drive demonstrable and positive change.

Listed below are some of the actions we've launched and the steps we are taking:

SUSTAINABILITY

- Over 60 million plastic bottles that would have ended up as rubbish or in landfills have instead been recycled into material for our award-winning Billabong recycler boardshorts and jeans.
- RVCA has also partnered with Coca-Cola and its ekocycle initiative to produce boardshorts and art-inspired t-shirts that are made from recycled plastic bottles.
- Element's "No Board Left Behind" program was created to promote recycling. With the purchase of a new Element deck, the old skateboard deck is re-cut it into a new shape, so that the board avoids the dump. The old board is also equipped with green Element wheels - also recycled, being corn-fed bug waste that's processed into urethane.
- Von Zipper has developed "Shift Into Neutral" - a collection of sunglasses that are made from the environmentally friendly and sustainable oil delivered from the castor bean. The oil is a non-toxic and renewable resource that creates frames with the same strength and flexibility as our traditional sunglasses.
- Xcel's Hawaii brand headquarters and manufacturing facility is powered by a 34-kilowatt photovoltaic (PV, or solar) system estimated to offset more than 885 tons of carbon dioxide emissions over its lifetime.
- Sector 9 uses wind to power its factory through purchasing wind energy credits from Native Energy that are submitted to the power company which in turn directs them to bring clean wind energy onto the grid to offset its power usage.

SUPPLY CHAIN

For close to a decade Billabong International has had in place internationally recognised, independent and audited supply chain programs in place across its operations.

The Group now plans to build on this commitment through implementing a corporate social responsibility program under the principles of Worldwide Responsible Accredited Production (WRAP) and conducting audits of supplier factories via the Group's Central Sourcing function.

WRAP has 12 principles, as follows:

- Compliance with Laws and Workplace Regulation;
- Prohibition of Forced Labor;
- Prohibition of Child Labor;
- Prohibition of Harassment or Abuse;
- Compensation and Benefits;
- Hours of Work;
- Prohibition of Discrimination;
- Health and Safety;
- Freedom of Association and Collective Bargaining;
- Environment;
- Customs Compliance; and
- Security.

The application of WRAP throughout the Group's global supply chain will enable a better understanding and management of the supply chain.

If prospective new suppliers demonstrate no motivation or ability to move towards WRAP, they will be denied entry to the Group's supply chain. If a supplier submits to an audit but demonstrate workplace standards below those imposed by WRAP, then they will be issued with a corrective action plan. The supplier then has to demonstrate an improvement or a commitment to improve workplace standards to ensure entry into the supply chain.

TAKING THE NEXT STEPS

Chief Operating Officer Jeff Streader, who joined Billabong in 2014, has global responsibility for the Company's supply chain. Since 2006 Jeff Streader has been a Board member of WRAP, which is an independent not-for profit NGO. WRAP has a team of global social compliance experts dedicated to promoting safe, lawful, humane and ethical manufacturing around the world through certification and education. To date there are over 1,600 factories employing more than 1.5 million people worldwide that have WRAP accreditation.

Jeff Streader's team will conduct an ongoing review of the Group's supply chain compliance and ethical policies as part of wider changes being undertaken.

THE YEAR IN REVIEW – BILLABONG

The last 12 months have seen brand Billabong focus on the fundamentals that grew it into a truly global brand.

Progressive product and progressive marketing have reinvigorated both the brand and the passionate team behind it.

At the 2014 Australian Surf Industry Awards, Billabong took out a near clean sweep of the gongs including the Product Innovation and Environment Award as well as the Men's and Women's Marketing Awards and the top honors in both Men's and Women's Brand of the Year.

In Europe, Billabong's innovative Surf Capsule range appeared on the cover of Vogue.

While in the United States, 2015 forward orders for Billabong grew spurred on by a focus on the core, stronger investment in trade marketing, and building engaging concepts in store.

For the first time ever we launched a women's global brand campaign called "It's a bikini kind of life", itself aligning with the award winning men's campaign of - "Life's better in Board Shorts."

Already number one across a large number of categories in surf specialty stores in major markets such as Australia and North America, Billabong Women's continues to focus on its core market, with stronger investment in trade marketing, and in-store concepts.

At one of the brand's marquee events, the 2014 Billabong Pro in Teahupoo, a fierce swell drew the largest live viewing audience in the history of professional surfing. Already described as one of the five top sporting spectacles in the world, Teahupoo 2014 was universally hailed as one of competitive surfing's greatest ever events. Billabong has long nurtured the talent that has taken wide-eyed groms from local competitions to the bone crunching breaks in Tahiti or Hawaii and the last year was no exception.

ASP world champion Joel Parkinson, top flight contender Taj Burrow, dual world junior champion Jack Freestone and rising women's star Laura Enever, were among those paddling out with the world's best in events globally.

And in February 2014 Billabong welcomed West Australian teen surf prodigy Jack Robinson to the team.

By age 14, Jack had landed the coveted number 1 spot on Surfer Magazine's annual Hot 100 junior list and since then he's reinforced the soundness of that call.

Billabong founder Gordon Merchant said of Jack: "He has power, speed and instinctive timing combined with a style and self-confidence that are beyond his years."

So it's perhaps fitting that the last word on the last year should go to a surfer in Jack who builds on the brand's heritage and is one of those who represents its future.

"Billabong is an iconic brand that has stood the test of time. Their team, their events in venues such as Teahupo'o in Tahiti and Pipeline in Hawaii, their history and their direction are everything I want to be a part of. This opportunity offers more than a surfer like myself could possibly want."

THE YEAR IN REVIEW – ELEMENT

2014 was a year for the Element brand that saw it continue its mission as a conscious streetwear brand creating products, art and programming that further the progression of skateboarding in the most honest and ethical way possible. In its first move, the brand headquarters were relocated to a new space in Costa Mesa, California, dubbed "The Branch." The new, sustainably built campus hosts a reclaimed skate-park, green urbanised landscape designed plots and imaginative meeting spaces to provide a creative environment welcoming to staff, retailers, artists and athletes alike.

Element continued to represent its "Conscious by Nature" philosophy through its many community-based initiatives including Elemental Awareness' Native American reservation and inner-city outreach, the national "No Board Left Behind" recycling program, and its perennially sold-out Element Skate Camp concept, which spans the globe. Element's largest grassroots advancement continued with the "Make it Count" International Contest series, boasting over 35 amateur skate contests in 20 countries, resulting in over 122 million digital impressions.

The brand's pro team continued to lead the industry and was crowned "Best Team" at the annual Transworld Awards during AGENDA, the largest showcase for skateboarding. This group of inspired athletes holds the distinction of achieving more accolades, media coverage and social media followers than any other skate company in the world. Two team members are individually note-worthy as they made history this year: Nyjah Huston went undefeated on the pro circuit, which included a sweep of first place wins on the globally syndicated Street League event series, and Tom Schaar took home an X Games Gold medal in Big Air, making him the youngest ever to do so.

Innovation, craftsmanship and design were evident in the brand's most successful integrated marketing campaign to date - the launch of Element's newest Wolfeboro jacket line. The campaign, brought to life via a short-film documentary featuring team rider Karsten Kleppan visiting the northern-most mini-ramp in the world in the Arctic, resulted in over 10 million impressions. Element's creative innovation continued with its longstanding Advocate program and collaborations with two book releases featuring the unique work of advocates photographer Brian Gaberman and artist Todd Francis promoted by packed art shows around the globe. A highly successful skateboard and apparel collaboration with street artist PUSH was covered extensively by the media and featured prominently on many notable blogs and lifestyle outlets.

One of the most inspiring stories this year was linked to Element's women's division, Eden, created for the passionate and independent woman who strives to inspire and to live, learn and grow. Longtime Element Advocate Amy Purdy, a double amputee and snowboarder, took bronze at Sochi's Paralympics, was runner up on the nationwide hit TV show Dancing With the Stars, and toured with Oprah.

The end of this year marks the opening of a flagship store in one of the leading, fashion forward and sub-culture influenced cities in the world, London. The centrally located shop signifies Element's continuing development as a universal brand and serves as a global flagship, increasing brand presence and continuing to broadcast Element's DNA and brand message to consumers around the world.

THE YEAR IN REVIEW – RVCA

RVCA is a global lifestyle brand with a heritage in artist-driven apparel and accessories. Fueled by a culture of creativity, RVCA is deeply rooted in and passionate about the arts and active pursuits. RVCA is an authentic brand inspiring consumers through its advocates, artists, events and products. Always original, RVCA is pushing the boundaries of creative expression.

In the 2013/2014 financial year, RVCA leveraged its heritage as a creative leader by launching a new global advertising campaign defining The Balance of Opposites and bringing the Artist Network Program front and center in communications. Through the comparison of advocates highlighting their unique qualities in direct contrast to each other, RVCA is bringing deep meaning to the tagline The Balance of Opposites. This campaign is also highlighting key artists that make up the core of the Artist Network Program, linking them to products and programs currently in the market.

RVCA continued to drive its women's business through the expansion of the swim category, dresses and, of course, knits featuring brand-driven graphic art. Collaborations with fashion model and RVCA advocate Ashley Smith continued in the year, bringing a new level of creativity and trend-right products to the market. RVCA Women's was the talk of several tradeshows through the year as retailers experienced solid sell through of the line and recognised the potential of the RVCA brand with women.

RVCA also signed two new young skateboarders in the year that drew the attention of the action sports industry; Greyson Fletcher and Curren Caples. Greyson Fletcher is one of the most exciting skaters to emerge from the new generation of all terrain rippers. His wild, loose and spontaneous approach to skating has made him a crowd favorite at almost any session. California native, Curren Caples, is a skateboarder that can't be pigeon holed into any one style of skating. He's just as comfortable on his board whether he is skating a handrail or competing in the X Games. Both skate athletes are a perfect fit for The Balance of Opposites campaign and will support RVCA's denim program in the market.

The digital world for RVCA provides the platform for great story telling. Content, content, content is the name of the game. The RVCALOHA represents an annual mingling of subcultures in the land of Aloha. RVCA global advocates and artists, all from different disciplines, gather in Hawaii to showcase their talents and collaborate with each other while generating volumes of content and solidifying RVCA as the creative leader in the industry. Today, RVCA releases weekly content stories highlighting advocates, events, products and news surrounding the brand. During 2014, we expect that RVCA will more than double its social media followers.

For the 4th year in a row, and for an unprecedented 5th time, RVCA won the prestigious SIMA Men's Apparel Brand of the Year award. This is proof that RVCA can remain an authentic brand with core consumers while expanding its reach and exposure globally.

VonZipper is a fashion forward brand centred around the alternative mind-set with a focus on the eyewear, accessory and premium apparel market. VonZipper had a solid year across all business categories and released eight new and diverse frames; including the style leading "Lesmore" and "Booker", the sport driven "Blotto" and "Speedtuck" and the trend defining "Juice" and "Cheeks".

Colour initiatives and collaborations helped differentiate VonZipper from the rest of the marketplace with our "Party Animals", "MindGlow" and "BrainBlast" collections, together with the Joel Parkinson and Taj Burrow colour-ways.

The launch of VonZipper's new goggle, the "Beefy", and investments in the motocross and snow divisions began to show dividends with heightened brand penetration and exposure in these important markets.

"DotDash", VonZipper's price sensitive, fast fashion offering, continued with strong sell through and noteworthy growth. Lifestyle and personality-focused imagery and marketing centred around incredible people doing amazing things continued to separate VonZipper from its competitors.

VonZipper's exposure, reaching several different sport categories, has never been higher and is shared on social networking, which speaks both directly to the brand's loyal followers as well as the wider market.

On the charitable front, VonZipper continued to give back to the community by supporting "Boarding For Breast Cancer", helping raise awareness and monies for the cause through product development and donating a portion of the proceeds from sales.

Kustom footwear represents the youthful energy of a modern surfing culture; innovative, discerning, restless and a little rough around the edges. The grinding points of Australia's Gold Coast are the brand's home, but the brand stands for a lifestyle that exists far beyond the sand and water.

In the last financial year, Kustom embarked on a number of great collaboration projects, introducing products with the Billabong Garage Collection and also with The Mad Hueys.

The brand recently signed an exclusive agreement with Sea Shepherd to produce a range of shoes, sandals and t-shirts by way of a Sea Shepherd x Kustom collaboration project, to be launched in November 2014.

The reception received from the brand's retail partners has been very strong, with the Sea Shepherd collaboration styles amongst our best performers in terms of forward orders.

The brand recently added Beau Foster to its surf team. Beau is part of a new generation of surfers coming out of Australia; wonderfully transient, chasing waves around the world and documenting his adventures on film and in pictures that are shared throughout the world via digital media.

Along with launching a new footwear collection designed for travel known as the "Escape Collection", Kustom expanded its girls' "Cloud Sole" collection, which uses a unique material compound that is incredibly lightweight, soft and comfortable.

Xcel is a specialty wetsuit manufacturer that stands apart for its innovation and intense product focus.
Xcel performed well in the last financial year, achieving its global profit plan.

Specialty surf shop sales remained strong due to new product initiatives and effective core marketing messaging. In its first full year, the brand's USA direct online sales performed strongly.

Xcel's award-winning reputation for innovation continued through the launch of its new TD3 ThermoDry neoprene wetsuit. This product combines the brand's premium technologies for warmer, lighter and drier wetsuits for the Autumn and Winter season.

The brand continued to support its marketing initiatives, partnering with progressive team athletes with global appeal, including Noa Deane and Albee Layer.

Xcel also held the second "Race Against Skin Cancer" stand-up paddle board event in Hawaii, raising awareness for skin cancer education and research in partnership with the University of Hawaii Cancer Center.

In the beach lifestyle focused markets of Australia and Hawaii, Tigerlily and Honolua respectively experienced brand growth.

Tigerlily saw significant double-digit sales growth through all distribution channels. A significant part of this growth was driven by swimwear, Tigerlily's hero category. Unique textiles, distinguishable prints, the fusion of fashion and classic themes, the continuous quest for the perfect bikini; these are the elements that have established Tigerlily as a leader in premium swimwear and beachwear. Tigerlily also moved to implementing four ranges per calendar year to improve on seasonality and inventory accuracy.

A successful new retail store concept was also rolled out in Queensland, with the planned expansion of a further five stores using the new concept in the current financial year.

Honolua remains the premier surf brand in the state of Hawaii.
Honolua is known as one of the best dressed retailers in the state of Hawaii and its stores continued to showcase all the Group's brands.

Sector 9 is the original longboard skateboard for the surf, skate and snow-boarding lifestyles.
Now in its 21st year, the brand's product is available in over 70 countries.

Over the last 12 months the brand implemented its global market campaign "WeMakeFun" as well as launching a range of new products including Skiddle wheels.

Skiddle urethane has been specially formulated for a smooth and predictable slide that pastes colour on the road.

Sector 9 was also again a driving force behind the annual Angie's Curves downhill skateboard race.

Angie's Curves, located in Pala, California, is one of the most challenging downhill races on the World Cup Circuit. Nine harrowing turns over two kilometres and speeds upwards of 100 kilometres per hour put the world's best downhill skateboarders to the test. It is the seventh stop on the 2014 IDF (International Downhill Federation) World Cup Series.

The event was live streamed globally, a technically complex and challenging endeavour, given the course.

Palmers is a heritage surf wax and accessories brand that caters exclusively to active board sports participants. The brand, established in Australia in 1988, is produced on-site at Billabong's Burleigh Heads HQ and sold worldwide. In the last financial year, Palmers maintained its place as a leading supplier to hardware-focused surf retailers.

Pro surfer Mitch Parkinson recently joined the Palmers Hardware Team and will promote the Signature Traction wax, to be released late in 2014.

RETAIL

Over the last 12 months the Group has continued to make progress in consolidating its store fleet, improving retail operations and lifting operating margins.

In 2014, the Group closed 41 underperforming stores globally and expects to shut another 22 in FY15.

It also sold West 49, which reduced the Group's multi-brand store count by a further 93 stores.

Other key retail initiatives include reducing comparable wage costs through event scheduling, using newly installed traffic counters to improve conversion and measure the impact of our marketing and selling tactics, renegotiating rents and ongoing consolidation of banners in Australia under the Surf Dive and Ski banner.

These changes have improved the store level profitability of our retail operations by 210 basis points over the last year.

A new generation store prototype is now being developed for Billabong by renowned store designer, Ron Pompei, and will be launched in the second half of 2015 in Australia before going global.

Based in the United States, Mr Pompei has worked with a number of leading retail brands, including Anthropologie, Urban Outfitters, Disney, Ikea and Monsoon, and has previously been named as one of the most influential people in the U.S. design industry.

The Group's multi-brand stores are now distorting product presentation towards Group brands and seeing very promising results from pilot programs in Australia and in the UK.

In Australia we continue to build the RVCA brand through our fleet of 94 multi-brand stores. The Group will also open a further five new Tigerlily stores across Australia during FY15 and a further two Billabong stores before the end of 2014.

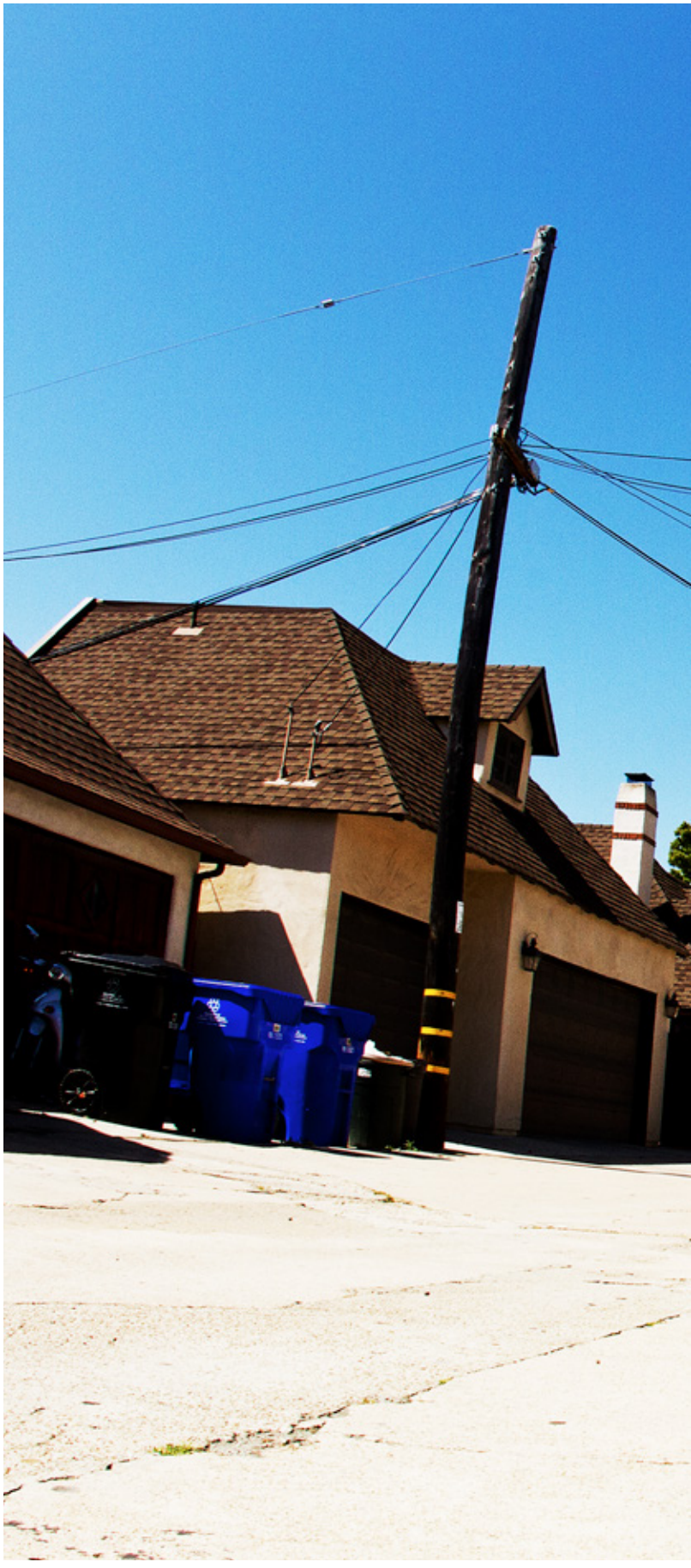
In Europe, Element will open a major new store in Covent Garden, London, this year, and we will launch the RVCA range in our Two Season retail stores in the UK.

New Billabong stores will also open in Florida and Southern California.

In the wider retail market the Group is committed to building on its number one position in the core specialty channel and protecting the quality of its distribution.

Part of that commitment is to work with specialty retailers in ensuring our brands continue to draw in core surf and action sports participants.

At Jack's Surfboards shop in Huntington Beach, California, arguably one of the most competitive corners of surf retail in the world, a trial remerchandising program has captured significant market share and elevated brand Billabong to the top position.




STOP

Billabong International Limited

ABN 17 084 923 946

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Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Billabong International Limited (the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2014.

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

G.S. Merchant
H. Mowlem
S.A.M Pitkin
I. Pollard

N. Fiske was appointed as Chief Executive Officer (CEO) and Managing Director on 21 September 2013 and continues in office at the date of this report.

J. Mozingo was appointed as Non-Executive Director on 4 November 2013 and continues in office at the date of this report.

A. Doshi was appointed as an Alternate Director to J. Mozingo on 10 December 2013 and continues in office at the date of this report.

M. Wilson was appointed as Non-Executive Director on 4 November 2013 and continues in office at the date of this report.

T. Casarella was appointed as an Alternate Director to M. Wilson on 10 December 2013 and continues in office at the date of this report.

C. Paull was a Non-Executive Director from the beginning of the financial period until her resignation on 30 January 2014.

A.G. Froggatt was a Non-Executive Director from the beginning of the financial period until his resignation on 4 November 2013.

J. Rogers was appointed as a Non-Executive Director on 23 July 2013 and continued as a Director until his resignation on 4 November 2013.

K. Schwartz was appointed as a Non-Executive Director on 23 July 2013 and continued as a Director until his resignation on 4 November 2013.

P. Naude was an Executive Director from the beginning of the financial period until his resignation on 5 August 2013. He was on leave of absence from 19 November 2012 to the date of his resignation.

L. Inman was an Executive Director from the beginning of the financial period until her resignation on 2 August 2013.

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 2014.

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 Australasia, Americas and Europe.

The Group's brands at year-end included Billabong, Element, RVCA, Kustom, Palmers, Honolua, Xcel, Tigerlily, Sector 9 and Von Zipper.

The Group operates 424 retail stores as at 30 June 2014 in regions / countries around the world including but not limited to: North America (64 stores), Europe (111 stores), Australia (128 stores), New Zealand (35 stores), Japan (45 stores) and South Africa (23 stores). Stores trade under a variety of banners including but not limited to: Billabong, Element, Surf Dive 'n' Ski (SDS), Jetty Surf, Rush, Amazon, Honolua, Two Seasons and Quiet Flight. The Group also has online retail including the sites www.swell.com and www.surfstitch.com (refer to matters subsequent to the end of the financial year).

Significant changes in the state of affairs
The statement below should be read in conjunction with note 41 (events occurring after the balance sheet date) of the annual report for the year ended 30 June 2013 and any public announcements made by the Company during the financial year.

On 23 July 2013 the Company announced it had sold the DaKine brand and its operations to Altamont for a purchase price of $70 million. The results of DaKine have been reported in these financial statements as a discontinued operation.

On 23 July 2013 the Group's interest in Nixon was restructured so as to reduce the Group's commitment to purchase previously agreed volumes of product in exchange for make good payments and the dilution of the Group's interest in Nixon Joint Venture from 48.5% to 4.85%. As a result Nixon is no longer treated as an associate.

On 19 September 2013 the Company announced that it had entered into binding agreements with the Centerbridge Partners, L.P. and Oaktree Capital Management, L.P. Consortium ("C/O Consortium") in relation to long term financing. The refinancing included a new term loan of US$360 million which was used in part by the Company to replace the US$294 million bridge loan facility which had been provided pursuant to a July 2013 agreement with Altamont Capital Partners and entities sub-advised by GSO Capital Partners (together with Altamont the "Altamont Consortium").

On 4 November 2013 the Group announced that it had entered an agreement to sell its Canadian retail chain, West 49, to YM Inc. The Group also announced that it had entered into an approximate CA$34 million non-exclusive wholesale agreement with YM Inc. over the next two years. On 6 February 2014 the Company announced it had sold West 49 to YM Inc. for a purchase price of CA$3 million. The results of West 49 have been reported in these financial statements as a discontinued operation.

On 16 December 2013 the Company refinanced prior indebtedness additional to the term loan with an asset-based multicurrency revolving credit facility of up to US$100 million arranged by GE Capital.

In the preparation of the 31 December 2013 interim financial report the Group identified a deferred tax liability totalling $45.0 million which should have been derecognised at 30 June 2012. Accordingly a restatement of prior period financial statements has been reported in this full financial report for the year ended 30 June 2014. For details regarding the restatement refer to note 3 of the financial statements for more information.

On 30 January 2014 shareholders voted to support the strengthening of the Company's balance sheet by approving the issue of $135 million of ordinary equity ("C/O Placement") to the C/O Consortium in order to reduce debt and provide a stronger financial platform for the turnaround plan outlined by the Company's CEO Neil Fiske at the AGM on 10 December 2013. On 6 February 2014 $135 million of ordinary equity at $0.41 per share was issued resulting in the issuance of 329,268,294 shares to the C/O Consortium with the proceeds subsequently used to pay down the term loan.

On 26 February 2014 the Company announced a non-underwritten pro-rata accelerated renounceable entitlement offer ("2014 Rights issue") for eligible shareholders to subscribe for 3 new ordinary shares for every 8 existing ordinary shares at an issue price of $0.28 per new share with such shares to be issued on, and rank for dividends after 1 April 2014. As a result, 180.4 million new shares were issued, resulting in gross cash proceeds of $50.5 million.

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.

Operating and Financial Review (continued)

Group financial performance

The Group results for the period and the prior corresponding period (pcp) include certain significant items including impairment charges, costs associated with the various control and/or refinancing proposals announced over the last two years and the restructuring of the Group's operations pursuant to the various strategic reform programs announced in August 2012 and December 2013. Refer to note 8 of the financial statements for more information in relation to these items.

During the period the Group sold its interest in the DaKine brand (sale completed 23 July 2013) and its Canadian retail chain West 49 (sale completed 6 February 2014).

The segment results are presented on a basis including all significant items and including the operations of DaKine and West 49 for the relevant period of ownership. The results also include significant tax charges in relation to the write off of deferred tax assets and the non-recognition of tax losses. See Table A "Segment Results As Reported – Including significant items and discontinued operations".

In order to provide users with additional information regarding the continuing operations excluding the aforementioned significant items the segment results are also presented on a basis which excludes the significant items and excludes DaKine and West 49 from both the current year and pcp. The table also removes the aforementioned significant tax charges and the tax effect on significant items to give a normalised tax result. See Table B "Adjusted Segment Results (As Reported) – Excluding significant items and discontinued operations".

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. The Group's segment information for the prior period has therefore also been presented 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 prior period comparative. The constant currency comparatives are not compliant with Australian Accounting Standards. See Table C "Adjusted Segment Results (Constant Currency) - Excluding significant items and discontinued operations".

Table A: Segment Results As Reported – Including significant items and discontinued operations

	Segment revenues		**Segment EBITDAI***	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Australasia	480,500	471,764	14,593	4,362
Americas	537,969	636,764	(48,988)	19,527
Europe	199,041	232,064	(20,754)	(25,065)
Third party royalties	2,842	2,759	2,842	2,759
Discontinued operation – adjustment to onerous supply agreement in relation to Nixon	---	---	---	(3,482)
Segment revenues / EBITDAI*	1,220,352	1,343,351	(52,307)	(1,899)
Share of net loss after-tax of associate			---	(4,979)
Less: Net interest expense			(34,205)	(12,434)
Depreciation and amortisation			(39,654)	(45,473)
Fair value adjustment on reclassification of West 49 as held for sale during the year			(17,718)	---
Impairment charge			(29,255)	(766,499)
Loss before income tax expense			(173,139)	(831,284)
Income tax expense			(66,794)	(31,718)
Loss after income tax expense			(239,933)	(863,002)
Loss attributable to non-controlling interests			6,221	3,461
Loss attributable to members of Billabong International Limited			(233,712)	(859,541)

* 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).

Operating and Financial Review (continued)

Table B: Adjusted Segment Results (As Reported) – Excluding significant items and discontinued operations

Adjusted EBITDAI by Segment:	**2014 Excluding significant items $'000**	**2014 Excluding significant items and discontinued operations* $'000**	2013 Excluding significant items $'000	2013 Excluding significant items and discontinued operations* $'000
Australasia	34,573	34,573	31,947	31,947
Americas	17,638	23,564	38,013	46,877
Europe	(8,124)	(8,469)	(74)	(10,439)
Third party royalties	2,842	2,842	2,759	2,759
Adjusted EBITDAI	46,929	52,510	72,645	71,144
Share of net loss after-tax of associate	---	---	(4,979)	(4,979)
Less: Depreciation and amortisation	(39,654)	(37,698)	(45,473)	(40,287)
Net interest expense	(34,205)	(34,122)	(12,434)	
Adjusted net (loss)/profit before income tax benefit/(expense)	(26,930)	(19,310)	9,759	
Adjusted income tax benefit/(expense)	6,443	(1,339)	(5,551)	
Adjusted net (loss)/profit after income tax benefit/(expense)	(20,487)	(20,649)	4,208	
Loss attributable to non-controlling interest	6,221	6,221	3,461	
Adjusted net (loss)/profit attributable to members of Billabong International Limited	(14,266)	(14,428)	7,669	

* Excludes DaKine, West 49 and Nixon (discontinued operation - adjustment to onerous supply agreement).

The Group results for the period and the pcp include certain significant items including impairment charges, costs associated with the various control and/or refinancing proposals announced over the last two years and the restructuring of the Group's operations pursuant to the various strategic reform programs announced in August 2012 and December 2013 (consulting costs, inventory write downs and redundancies) and other significant costs comprising but not limited to, fair value adjustments for assets held for sale during the period and the impairment of brands, goodwill and in the prior year investment and property, plant and equipment (collectively significant items).

Operating and Financial Review (continued)

Table C: Adjusted Segment Results (Constant Currency) - Excluding significant items and discontinued operations**

Adjusted EBITDAI by Segment:	**2014 Excluding significant items $'000**	**2014 Excluding significant items and discontinued operations* $'000**	2013 Excluding significant items $'000	2013 Excluding significant items and discontinued operations* $'000
Australasia	34,573	34,573	32,072	32,072
Americas	17,638	23,564	42,615	51,943
Europe	(8,124)	(8,469)	931	(11,098)
Third party royalties	2,842	2,842	2,759	2,759
Adjusted EBITDAI	46,929	52,510	78,377	75,676
Share of net loss after-tax of associate	---	---	(4,979)	(4,979)
Less: Depreciation and amortisation	(39,654)	(37,698)	(44,421)	(38,933)
Net interest expense	(34,205)	(34,122)	(13,397)	
Adjusted net (loss)/profit before income tax benefit/(expense)	(26,930)	(19,310)	15,580	
Adjusted income tax benefit/(expense)	6,443	(1,339)	(8,862)	
Adjusted net (loss)/profit after income tax benefit/(expense)	(20,487)	(20,649)	6,718	
Loss attributable to non-controlling interest	6,221	6,221	3,461	
Adjusted net (loss)/profit attributable to members of Billabong International Limited	(14,266)	(14,428)	10,179	

** 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. The Group's segment information for the prior period has therefore also been presented 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 prior period comparative. The constant currency comparatives are not compliant with Australian Accounting Standards.
*** Excludes DaKine, West 49 and Nixon (discontinued operation - adjustment to onerous supply agreement).

Adjusted EBITDAI excludes pre-tax significant items of $99.2 million (note 8 pre-tax significant items of $146.2 million less fair value adjustment on reclassification of West 49 as held for sale during the year of $17.7 million and impairment charges of $29.3 million) and $74.5 million (note 8 pre-tax significant items of $841.0 million less impairment charges of $766.5 million) for the years ended 30 June 2014 and 30 June 2013 respectively. Refer to note 8 of the full financial report for detailed disclosure in relation to these items.

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

Consolidated result including significant items and impairment charges
Net Loss After Tax for the year ended 30 June 2014 was $233.7 million compared to a Net Loss After Tax of $859.5 million in the prior corresponding period (pcp). The 2014 and 2013 financial years were impacted by the abovementioned significant items, impairment charges and the sale of DaKine and West 49.

Group performance excluding significant items and excluding DaKine and West 49
Group sales to external customers of $1,119.2 million, excluding third party royalties, represents an as reported 1.5% increase on the pcp. In constant currency terms Group revenues decreased 5.0% on the pcp. In constant currency terms, sales revenue in Australasia increased 1.1% compared with the pcp, the Americas decreased 9.9% and Europe decreased 7.5%.

Consolidated gross margins were 51.6% (53.0% in the pcp).

Adjusted EBITDAI excluding discontinued operations of $52.5 million for the period compares to $71.1 million for the pcp. This is a decrease of 26.2% (a decrease of 30.6% in constant currency terms).

Operating and Financial Review (continued)

The Adjusted EBITDAI excluding discontinued operations was highlighted by:

- In Australasia Adjusted EBITDAI was up $2.6 million (8.2%) compared to the pcp with revenues being 1.9% higher than the pcp in as reported terms (1.1% in constant currency terms), with cost savings achieved through the Group's store closure program and the exit from some of the smaller Asian territories. Comparable store sales were up 1.3% on the pcp.
- In Americas Adjusted EBITDA was down $23.3 million (49.7%) compared to the pcp. Revenue was down 1.7% compared to the pcp in as reported terms (9.9% in constant currency terms) largely as a result of weakness in the Canadian market. There were also lower results from South America (including Peru and Chile which were restructured in November and December 2013 by closing the Group's owned and operated operations in favour of the appointment of a distributor). In the United States weak trading conditions were experienced in retail and across most brands.
- In Europe Adjusted EBITDAI was up $2.0 million compared to the pcp. The Adjusted EBITDAI of $8.5 million of losses includes $7.3 million of losses for Surfstitch. Comparable store sales were up 5.9% on the pcp.

Share of associates
The Group's interest in Nixon was restructured in July 2013 and as a result Nixon is no longer treated as an associate.

Group performance including significant items and including DaKine and West 49
Group sales to external customers of $1,217.5 million, excluding third party royalties, represents a 9.2% decrease on the pcp in as reported terms or a decrease of 15.3% in constant currency terms.

At a segment level, in as reported terms, sales revenue in the Americas decreased 15.5% and Europe decreased 14.2% compared with the pcp reflecting the DaKine and West 49 revenues included for the whole of the pcp however only for the period 1 July 2013 to 23 July 2013 and 1 July 2013 to 6 February 2014 respectively in the current year. Australasia increased 1.9% on the pcp.

EBITDAI of $52.3 million loss for the period compares to $1.9 million loss for the pcp. The DaKine and West 49 EBITDA was included in the whole of the pcp, however only for the period 1 July 2013 to 23 July 2013 and 1 July 2013 to 6 February 2014 respectively in the current year period and the current period includes $99.2 million of significant items (pcp $74.5 million of significant items). In addition to the significant items and DaKine and West 49 differences the comparison is impacted by the trading matters noted above.

Significant items
Pre-tax significant items for the year ended 30 June 2014 of $146.2 million includes $17.7 million of fair value adjustment on reclassification of West 49 as held for sale during the year, $29.3 million impairment charges and $99.2 million of items impacting EBITDAI.

Pre-tax significant items for the year ended 30 June 2013 of $841.0 million includes $766.5 million of impairment charges and $74.5 million of items impacting EBITDAI.

Refer to note 8 of the full financial report for detailed disclosure in relation to these items.

Depreciation and amortisation expense
Depreciation and amortisation expense excluding significant items and excluding DaKine and West 49 decreased 6.4% in reported terms compared to the pcp primarily due to a reduction in property, plant and equipment following the retail store closure program and the write down of asset carrying values in prior years.

Fair value adjustment on reclassification of West 49 as held for sale during the year
On 4 November 2013 the Group announced that it had entered into an agreement to sell its Canadian retail chain, West 49, to YM Inc. As at 31 December 2013 West 49 was reported as an asset classified as held for sale and a discontinued operation. The assets were adjusted to their fair value with a $17.7 million expense recognised based on information available at 31 December 2013 balance sheet date using the terms of the sales agreement.

In addition to the fair value adjustment of $17.7 million, a loss on sale of $10.1 million has been recognised in relation to the sale of West 49. This loss includes the reclassification of the foreign currency translation reserve to the income statement ($4.0 million) and the recognition of the provision for onerous contracts ($2.2 million).

Impairment charge expense
As a result of the impairment review of intangible assets, the values of brands and/or goodwill in several Cash Generating Units were written down to their recoverable amounts, being either their value in use or fair value less costs to sell. For the year ended 30 June 2014, this resulted in an impairment charge amounting to $28.9 million (pcp $593.5 million).

Operating and Financial Review (continued)

As a result of the impairment review of fixed assets and other intangibles an impairment charge of $0.4 million for the year ended 30 June 2014 (pcp $43.4 million) was recognised to write down these assets to their recoverable amount.

In the pcp in relation to the investment in Nixon Investments, LLC based on the then current forecasts of the business and having regard to the differential capital structure referred to in the full financial report, the Group wrote down its investment by $129.6 million in the year ended 30 June 2013.

For the years ended 30 June 2014 and 30 June 2013 these items collectively resulted in a total impairment charge of $29.3 million and $766.5 million respectively.

Net interest expense
The increase in net interest expense from $12.4 million to $34.2 million was driven primarily by the new financing arrangements that have been entered into during the year ended 30 June 2014. The $34.2 million includes interest on the Term loan facility which was reduced from US$360 million to US$203.8 million following the completion of the C/O Placement and the 2014 Rights issue in February and March 2014 respectively.

Income tax expense
The aggregate income tax expense for the year ended 30 June 2014 was $66.8 million. During the year ended 30 June 2014 the Company made the decision to write off the majority of its deferred tax assets (net of deferred tax liabilities) as it has been estimated that it is not probable for income tax profits to be generated in a period where the conditions for utilisation of the assets will be met. The charge taken during the period for the write off of the deferred tax assets was $45.2 million.

Consolidated balance sheet, cash flow items and capital expenditure
Working capital at $150.2 million represents 13.6% of the prior twelve months' sales (excluding DaKine wholesale external sales and West 49 external sales) stated at year end exchange rates, being 3.3% lower compared to the pcp of 16.9%. This reduction is largely a result of the sale of DaKine and West 49, liquidation of surplus inventory, increased provision levels, improved debtors collections and the restructure of operations in certain territories.

Cash outflow from operating activities was $76.6 million, compared to an inflow of $11.9 million in the pcp, principally reflecting the impact of the costs of the refinancing with finance costs of $92.3 million in the current period (which included approximately $55 million of significant items which are not expected to recur) compared to $20.5 million in the pcp. Receipts from customers net of payments to suppliers and employees of $22.5 million were 15.0% lower compared to $26.5 million in the pcp.

Cash inflow from investing activities of $17.6 million includes the proceeds from the sale of DaKine, West 49 and other immaterial divestments.

Net debt decreased from $206.6 million in the pcp to $74.3 million, principally reflecting the aforementioned C/O Placement, 2014 Rights issue, proceeds from sale of businesses offset in part by refinancing costs and deferred consideration payments.

Strategy and future performance
The strategies and prospects for the Group's existing business operations are outlined below. On 21 September 2013 Mr Neil Fiske was appointed as CEO and managing director. Since his appointment he has put in place a new executive leadership team and on 10 December 2013 he announced a Turnaround Strategy to improve the financial performance of the Group specifically highlighting a focus on the following key strategic priorities:

Operating and Financial Review (continued)

Turnaround Strategy Part	Description
Brand	• Re-orient the company to building strong global brands. Put the brand view first • Sort the portfolio: the big three (Billabong, Element, RVCA) and emerging brands • Tailor specific strategies based on size, potential, life cycle, role in the portfolio, geography • Leverage the creativity and uniqueness of the brand founders • Focus on the authentic core youth consumer (board sport fanatic/influencer) • Implement brand management processes and disciplines

Product	• Build a strong merchant front end to the business
	• Develop clear assortment strategies
	  o Best At / Win At / Compete At – category plans
	  o Strategic line architecture
	  o Key item distortion
	  o Major product launches
	  o Right balance of global vs regional mix
	• Fewer, bigger, better styles leading to 25% plus reduction in product lines
	• Implement design to adopt ratios by category; design and assort to fixture
	• Elevate design and innovation

Marketing	• Develop 12 month integrated marketing calendar for each region • Build customer database; own the multi-channel customer; develop advanced CRM • Re-mix spend toward digital, CRM and demand generation • Invest ahead of biggest growth opportunities (example: RVCA and Billabong women's) • Increase marketing spend to competitive levels with savings made across the Group
Omni-Channel	• Prioritise "brand" before "multi-brand" • Build the mono-brand direct to consumer platform (retail + digital + CRM) to drive approximately 30% of sales within the next five years. Use stores and web to lead the brand • Evaluate strategic options for multi-brand Ecommerce • Develop wholesale channel win-back strategy • Drive retail profitability closures, productivity, rent, speciality retail disciplines, inventory management • Unify platforms for scale benefits – cost and capability
Supply Chain	• Configure supply chain for speed 4 times inventory turns • Move to fewer, bigger, better suppliers • Diversify out of China for cost and capability • Segment by channel and merchandise type • Drive down distribution/logistics costs
Organisation	• 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 platform • Rationalise general administration structure based on organisational design and spans/layers • Re-energise the organisation with focus on "offense" and "defence" agenda
Financial Discipline	• Strategy determines resource allocation and management Key Performance Indicators • Identify target for cost reductions to fund the "marketing war chest" • Drive inventory and other working capital improvement; focus on cash flow conversion • Prioritise capital expenditure towards customer facing and enabling projects • Manage the "profit cube" (brand / product X channels X geography)

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	Summary of risk
Brand	Possible damage or loss of market appeal to the brands or 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 building. Also refer to the aforementioned Turnaround Strategy which details the key priorities for future performance surrounding Brand, Product and Marketing.
Fashion	Failure to design and deliver products that appeal to customers. The Group addresses this risk through consumer data/research, innovative product development and brand building. Also refer to the aforementioned Turnaround Strategy which details the key priorities for future performance surrounding Brand, Product and Marketing.
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, Australian and international economic conditions (including any significant and extended economic downturn in Australia, Asia, North America, Europe, South America and Africa), 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.
Currency fluctuations	The Group receives revenue in more than ten different currencies and movements in these currencies could have an impact on the Group's profitability. 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 which is the functional currency, the major transactional exposure is in relation to inventory purchases, other than for the United States of America, where inventory purchases are typically denominated in United States Dollars (USD). This risk is mitigated to an extent by hedging, but significant movements in the USD still can impact the comparability and profitability of seasons between financial years.
Competition	The Group competes for discretionary income spend. 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. The Group addresses this risk by focusing on innovative product development and brand building to promote customer loyalty and remunerating employees fairly. Also refer to the aforementioned Turnaround Strategy which details the key priorities for future performance including diversification of the supply chain outside of China.
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.
Product sourcing and delivery	A material change or disruption in the Group's product sourcing and delivery arrangements could have an adverse impact on the Group. Given the highly competitive environment of the industry and reliance on cotton prices and labour via sourcing goods manufactured in countries such as China, increases in the costs of these inputs could impact the Group's financial results. The Group addresses this risk by focusing on innovative product development, keeping abreast of legislative changes and maintaining long-term supplier relationships. Also refer to the aforementioned Turnaround Strategy which details the key priorities for future performance including diversification of the supply chain outside of China.

Operating and Financial Review (continued)

Risk	Summary of risk
On-line retailing	Continued migration of consumers to on-line retail purchases may adversely impact the performance of the Group's bricks and mortar retail outlets and wholesale customers and the historically higher margin regions. The Group will address this risk by focusing on the omni-channel as part of the aforementioned Turnaround Strategy to ensure the Group has a best in class mono-brand direct to consumer platform which uses the Group's stores and websites to lead the brands.
Debt covenants	Failure to comply with its financial covenants caused by a significant further decline in revenue or earnings may require the Group to seek amendments, waivers of covenant compliance or alternative borrowing arrangements. The Group is focussed on delivering the Turnaround Strategy to mitigate this risk.
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 will mean it will 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 directors (Mr. Mozingo and Mr. Wilson) do 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	Given that 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 plans to implement a corporate social responsibility program under the principles of Worldwide Responsible Accredited Production (WRAP) and conducts audits of supplier factories via the Group's Central Sourcing function.
Asset impairment	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 Turnaround Strategy to mitigate this risk.
Proceeds from the refinancing may not provide sufficient funding to execute the Company's turnaround 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 turnaround strategy, which could have a negative impact on its future financial performance or position. The Group is focussed on delivering the Turnaround Strategy to mitigate this risk.
Strategy implementation risk	Given the Group's exposure to macroeconomic conditions there exists risk that the Group's profit improvement plans might be affected by developments in these areas.

The Group does not have any dependencies on key customers given its diverse customer base. The Group maintains relationships with a number of suppliers for its products to help mitigate supply and supplier dependency risks. As the Group operates in countries across the world, the Group is impacted by macroeconomic trading conditions across all of these countries.

Matters subsequent to the end of the financial year
On 21 August 2014 the Company announced the outcome of the strategic review of its multi-brand ecommerce businesses Surfstitch.com in Australia and Europe ("Surfstitch"), and Swell.com in North America ("Swell").

As previously announced on 6 February 2014, the review considered a range of options for both Surfstitch and Swell, as the Company moves to a direct to consumer omni-channel model across its global operations.

On 20 August the Company entered into binding documentation to sell its 51% stake in Surfstitch and its 100% ownership of Swell to a consortium of investors including Surfstitch founders Justin Cameron and Lex Pedersen ("Surfstitch Consortium") ("Transactions").

The Transactions are inter-conditional and are subject to conditions precedent, which are typical for transactions of this type, with a funding condition which was satisfied on Monday, 25 August 2014. Completion is expected to occur in mid-September 2014.

Upon completion, the Group will receive more than $35 million as a result of the Transactions, comprising sale proceeds, loan repayments and other consideration. The Group will also enter into agreements for the continued wholesale supply of products to Surfstitch and Swell.

The Company expects the Transactions to be earnings accretive to the Group in terms of both EBITDA and net earnings, although the extent of the improvement is contingent upon the future sales to Surfstitch under the new supply arrangements. The Transactions will impact the Australasia, Americas and European operating segments.

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

Likely developments and expected results of operations
The Group's strategic direction is discussed in the Strategy and Future performance section of this report. Trading to date in 2015 largely reflects the same themes as have been experienced throughout 2014. Australia and Europe continue to trade satisfactorily. In the Americas difficult conditions continue but the forward orders for Billabong and RVCA are ahead of last year and the comparable store sales in the United States, whilst still below last year, have improved relative to the most recent half. As the 2015 financial year progresses the Group is confident that the impact of the turnaround strategy will begin to be seen in the results but it is not possible at this time to quantify the extent of such impact.

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

Information on Directors

IAN POLLARD (*Non-Executive Chairman)*

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 Chairman of Just Group Limited and as a Director of OPSM Group Limited and DCA Group Limited, which he founded.

He is currently Chairman 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.

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

Interests in shares and options
90,078 ordinary shares in Billabong International Limited.

MCNEIL SEYMOUR FISKE JR *(Executive Director from 21 September 2013)*

Experience and expertise
Neil Fiske was appointed as Chief Executive Officer and Managing Director of the Company on 21 September 2013. He has 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 a senior 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.

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
669,643 ordinary shares in Billabong International Limited.
1,785,714 ordinary shares in Billabong International Limited to be held in voluntary escrow until commencement of trade on 10 January 2016.

Information on Directors (continued)

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. He has been a director of Plantic Technologies Limited since 31 March 2005. 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
Member of Nominations and Human Resource and Remuneration Committees.

Interests in shares and options
97,082,594 ordinary shares in Billabong International Limited.

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 & acquisitions, financial reporting, treasury, tax, investor relations, audit and governance. Mr Mowlem was appointed as Non-Executive Director of the Company on 24 October 2012.

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

Interests in shares and options
137,500 ordinary shares in Billabong International Limited.

Information on Directors (continued)

JASON MOZINGO (*Non-Executive Director from 4 November 2013)*

Experience and expertise
Jason Mozingo is a Senior Managing Director at Centerbridge Partners, L.P. Mr Mozingo leads the firm's retail and consumer investment efforts. Prior to joining Centerbridge, 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 $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 and currently serves as a Director of P.F. Chang's, CraftWorks Restaurants & Breweries and GT Holdings, LLC.

Mr Mozingo was appointed as Non-Executive Director of the Company on 4 November 2013.

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 Committees.

Interests in shares and options
None.

MATTHEW WILSON (*Non-Executive Director from 4 November 2013)*

Experience and expertise
Matthew Wilson is a Managing Director at Oaktree Capital Management, L.P. and is based in Los Angeles. He leads Oaktree's retail and consumer investing efforts, including investments in the apparel, retail, consumer products, food, beverage, and restaurants sectors. Prior to Oaktree, Mr Wilson was with H.I.G. Capital, LLC, a leading middle market private equity firm managing over $13 billion of capital. Prior thereto, he worked in the middle market buyout group at J.H. Whitney & Co. and the investment banking division at Merrill Lynch & Co. in New York.

Mr Wilson graduated with a B.A. degree with Distinction in Economics and History from the University of Virginia and an M.B.A. from the Harvard Business School. He currently serves on the Boards of Directors of AdvancePierre Foods, AgroMerchants Group, Diamond Foods (Nasdaq: DMND), and The Bridge Direct HK and is Chairman of the Board of Trustees of the Children's Bureau of Los Angeles.

Mr Wilson was appointed as Non-Executive Director of the Company on 4 November 2013.

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 the Nominations, Human Resource and Remuneration and Audit Committees.

Interests in shares and options
None.

Information on Directors (continued)

SALLY PITKIN (*Non-Executive Director)*

Experience and expertise
Dr Sally Pitkin is a former corporate partner of a leading Australian law firm, and has extensive experience as a non-executive director in listed companies, private entities, and public sector and non-profit organisations. She is the Deputy President of the Queensland Division of the Australian Institute of Company Directors.

Dr Pitkin was appointed as Non-Executive Director of the Company on 28 February 2012.

Other current directorships
Super Retail Group Limited, director since 1 July 2010.

Former directorships in last 3 years
No former directorships of Australian listed entities.

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

Interests in shares and options
96,250 ordinary shares in Billabong International Limited.

AMAR DOSHI (*Alternate Director for Jason Mozingo from 10 December 2013)*

Experience and expertise
Amar Doshi is a Principal at Centerbridge Partners, L.P and focuses on the firm's investments in the retail and consumer sectors. Prior to joining Centerbridge, 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. He currently serves as a Director of P.F. Chang's and CraftWorks Restaurants & Breweries.

Mr Doshi was appointed as Alternate Director of the Company on 10 December 2013.

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.

Information on Directors (continued)

THOMAS CASARELLA (*Alternate Director for Matthew Wilson from 10 December 2013)*

Experience and expertise
Thomas Casarella is a Senior Vice President at Oaktree Capital Management, L.P. and is based in Los Angeles. Mr Casarella helps lead Oaktree's retail and consumer investing efforts, including investments in the apparel, retail, consumer products, food, beverage, and restaurants sectors. Prior to Oaktree, Mr Casarella was the Deputy Chief Restructuring Officer at the United States Department of the Treasury, where he helped lead the Troubled Asset Relief Program (TARP). Prior thereto, he worked in the private equity group at Brookfield Asset Management and the investment banking division of Lazard and Goldman Sachs. Mr Casarella graduated with an A.B. degree *summa cum laude* from Bowdoin College, an M.A. in Economics from Oxford University, and an MBA from the Harvard Business School. He is a member of the Board of Trustees of the Children's Bureau of Los Angeles. Mr Casarella was appointed as Alternate Director of the Company on 10 December 2013.

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.

COLETTE PAULL (*Non-Executive Director until 30 January 2014)*

Experience and expertise
Colette Paull was one of the earliest employees of the Billabong business in 1973. Since that time, Ms Paull was broadly involved in the establishment and development of Billabong's business from its initial growth within Australia to its expansion as a global brand. Ms Paull has extensive experience in intellectual property, trademark protection, business administration, manufacturing, distribution, supply chain, marketing, sponsorships, wholesale and retailing.

Ms Paull previously held the position of Company Secretary until 1 October 1999. Ms Paull was appointed Non-Executive Director on 4 July 2000 and resigned on 30 January 2014.

Special responsibilities
Member of Nominations and Human Resource and Remuneration Committees until 30 January 2014.

TONY FROGGATT (*Non-Executive Director until 4 November 2013)*

Experience and expertise
Tony Froggatt was the CEO of Scottish and Newcastle PLC brewing company based in Edinburgh, UK until he retired on 31 October 2007 to return to Australia. He has extensive marketing and distribution knowledge in Australia, Western and Central Europe and Asia particularly in the international food and beverages sectors. Mr Froggatt was appointed as a Non-Executive Director on 21 February 2008 and resigned on 4 November 2013.

Special responsibilities
Member of Nominations, Human Resource and Remuneration and Audit Committees until 4 November 2013.

Information on Directors (continued)

JESSE ROGERS (*Non-Executive Director from 23 July 2013 until 4 November 2013)*

Experience and expertise
As announced on 16 July 2013, to reflect the significant investment of Altamont Capital Partners (Altamont) and entities sub-advised by GSO Capital Partners (the credit arm of the Blackstone Group) in the Company, Altamont nominated Mr Rogers to the Board of Directors of the Company. Mr Rogers was appointed as Non-Executive Director on 23 July 2013 and resigned on 4 November 2013.

Special responsibilities
Member of Nominations and Human Resource and Remuneration Committees until 4 November 2013.

KEONI SCHWARTZ (*Non-Executive Director from 23 July 2013 until 4 November 2013)*

Experience and expertise
As announced on 16 July 2013, to reflect the significant investment of Altamont Capital Partners (Altamont) and entities sub-advised by GSO Capital Partners (the credit arm of the Blackstone Group) in the Company, Altamont nominated Mr Schwartz to the Board of Directors of the Company. Mr Schwartz was appointed as Non-Executive Director on 23 July 2013 and resigned on 4 November 2013.

Special responsibilities
Member of the Nominations, Human Resource and Remuneration and Audit Committees until 4 November 2013.

PAUL NAUDE *(Executive Director until 5 August 2013)*

Experience and expertise
Paul Naude was appointed President of Billabong's American operations in 1998 and established Billabong USA as a wholly owned activity in North America. Mr Naude was appointed to the expanded role of President of the Americas on 9 May 2012. He has been involved in the surfing industry since 1973 with extensive experience in apparel brand management. Mr Naude was appointed as an Executive Director on 14 November 2002 and resigned on 5 August 2013.

Special responsibilities
President, Americas until 5 August 2013. He was on leave of absence from 19 November 2012 to the date of his resignation.

LAUNA INMAN (*Executive Director until 2 August 2013)*

Experience and expertise
Launa Inman was appointed as Managing Director and Chief Executive Officer effective 14 May 2012. Ms Inman has 32 years of experience in the retail sector and was the managing director of Target Australia, the country's largest retailer of apparel, from 2005 to 2011. Prior to this she was managing director of Officeworks, Australia's largest stationery and office technology retailer, and has considerable skills and depth of experience in global retail, supply chain management, finance, strategic planning and brand marketing. Ms Inman resigned on 2 August 2013.

Special responsibilities
Managing Director and Chief Executive Officer until 2 August 2013.

COMPANY SECRETARY

The Company Secretary is Ms Tracey Wood, BA (Psych), LLB, LLM. 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.

Ms Maria Manning was appointed as Company Secretary on 27 April 2006 until her resignation on 18 July 2014.

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 2014, and the numbers of meetings attended by each Director were:

	Billabong International Limited Board				Audit Committee		Nominations Committee		Human Resource and Remuneration Committee	
	Scheduled Meetings		Unscheduled Meetings							
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
I. Pollard	12	12	22	22	3	3	1	1	4	4
M.S Fiske Jr	11[B]	10	5[B]	5	A	A	A	A	A	A
G.S. Merchant	12	11	22	19	A	A	0[B]	0	2[B]	2
H. Mowlem	12	12	22	22	3	3	1	1	4	4
S.A.M. Pitkin	12	12	22	21	3	3	1	1	4	4
J. Mozingo	8[B]	8	5[B]	4[C]	2[B]	2	1	1	2[B]	2
M. Wilson	8[B]	8	5[B]	3[C]	2[B]	2	1	1	2[B]	2
C. Paull	7[B]	7	21[B]	20	A	A	0[B]	0	2[B]	2
A.G Froggatt	4[B]	4	17[B]	13	1[B]	1	0[B]	0	2[B]	2
J. Rogers	4[B]	3	2[B]	0[C]	A	A	0[B]	0	1[B]	1
K. Schwartz	4[B]	4	2[B]	1[C]	1[B]	1	0[B]	0	1[B]	1
P. Naude	1[E]	0	15[E]	0	A	A	A	A	A	A
L. Inman	1[E]	1	15[B]	13	A	A	A	A	A	A
A. Doshi	-	-	-	-	-	-	-	-	-	-
T. Casarella	-	-	-	1[D]	-	-	-	-	-	-

[A] Not a member of the relevant Committee.
[B] Number of meetings held during the time the Director held office or was a member of the committee during the year.
[C] Excluding meetings from which the Director was unable to attend due to a conflict.
[D] Alternate Director for Matthew Wilson.
[E] Number of meetings held during the time the Director held office yet unable to attend due to leave of absence.

Remuneration Report

MESSAGE FROM THE BOARD

The Board of Billabong International Limited presents the 2013-14 Remuneration Report.

It has been a year of significant change for the Billabong Group (for ease of reference, relevant changes are summarised on page 22).

Following a protracted period of uncertainty, in September 2013 Billabong was pleased to announce long term financing agreements to recapitalise the company and provide Billabong with a stronger balance sheet and capital structure to allow it to stabilise the business, address its cost structure and pursue a strategy to grow. Changes to the Billabong Board were announced and Neil Fiske was appointed as CEO and Managing Director.

At the Annual General Meeting in December 2013, the Group's turnaround strategy was presented to the market, based on a philosophy of "fewer, bigger, better" strong global brands. An ambitious agenda was outlined, acknowledging big changes ahead to return Billabong to what it does best.

In light of these major developments, we reviewed our Key Management Personnel (KMP) remuneration practices with a view to ensuring a KMP remuneration framework that is both responsive to local jurisdictions and supports the execution of the Company's strategy.

As an outcome of the review, the Board made changes to both the Long Term and Short Term Incentive Plans. The changes strengthen the link between business performance and executive reward and align executive remuneration with the successful financial delivery of our strategy. These changes are summarised below.

Long Term Incentive Plan
Up until 2013-14, long term incentive awards were granted under the Executive Performance Share Plan. Awards made under this plan were either Tier 1 awards (hurdled awards with a 3 year performance period) or Tier 2 awards (non-hurdled, retention based awards with a 2 year service period). During the year the Executive Performance Share Plan was re-named the Executive Long Term Incentive Plan and no retention based, non-hurdled awards were granted. Instead, all awards granted in 2013-14 were hurdled awards with a 3 year performance period. The Plan Rules were also updated, with the following changes implemented for 2013-14:

- the use of performance rights as the award vehicle, in line with common market practice;
- where a participant ceases employment with the Group during the performance period, unvested performance rights will be forfeited. However, in exceptional circumstances (e.g., death, disability or bona fide redundancy), the Board has discretion to determine a different treatment;
- no automatic vesting of performance rights upon a change of control. The Board has discretion to determine whether any awards should vest, with reference to factors including the portion of the vesting period that has elapsed and extent to which performance conditions have been satisfied; and
- no dividends or voting rights received until the award vests and shares have been allocated (previously, performance shares carried an entitlement to both dividends and voting rights during the vesting period for participants who received awards under Tier 2 of the Executive Performance Share Plan).

The long term incentive targets for 2013-14 awards were also modified to better reflect the current state of the business and our strategy, the Board determining to:

- reset the Earnings Per Share (EPS) hurdle to more closely align remuneration outcomes with key turnaround targets; and
- review and select a new, more appropriate, Total Shareholder Return (TSR) comparator group comprising 40 ASX listed companies chosen by the Board with reference to Billabong's market capitalisation, industry sector and international operations.

Short Term Incentive Plan
The Board also determined to change the 2013-14 short term incentive plan performance conditions, focusing executives on the turnaround efforts by removing the NPAT and ROCE measures and making EBITDA the sole Group measure.

The Board is committed to continuous improvement of our approach, taking into account best practice remuneration policies and feedback from shareholders. A global review of the Group's broader remuneration practices has already commenced with the assistance of a leading global professional services company with significant expertise in the area of total rewards.

Remuneration Report (continued)

Executive changes
During this critical period for the Group, it has been imperative that we attract, retain and motivate key executives to lead the Company and to deliver the turnaround required. In the context of challenging circumstances earlier this financial year, the Board has been conscious to balance the imperative to put in place a team of globally experienced, high quality executives, with Company performance and shareholder returns. As a result, the remuneration for new and promoted KMP, including the new CEO, has been structured with remuneration weighted towards incentives for financial performance.

Profiles of new and promoted Key Management Personnel can be found on page 23, profiles of new Non-Executive Directors can be found on page 15.

New Chief Executive Officer and Managing Director, Neil Fiske
The terms of new CEO and Managing Director, Neil Fiske's employment were approved at the 2013 Annual General Meeting. His annualised base salary inclusive of superannuation (Total Fixed Remuneration) is $1,000,000. He is eligible to receive a short term incentive of up to 100% of TFR subject to the satisfaction of performance against targets and a further 100% for superior performance. 25% of any short term incentive earned is deferred into equity for a period of 2 years. His long term incentive award is 125% of TFR subject to performance testing and shareholder approval.

In recognition of some of the income foregone or costs incurred by Neil upon departing his prior employment, he received a gross sign on bonus of $250,000. This was utilised to purchase 892,857 shares, which were offered to Neil at $0.28 cents per share to match the price that shares were issued under the February 2014 Rights issue. The Company matched Neil's investment by issuing Neil a further 892,857 shares, also at $0.28 cents. All such shares are subject to a 2 year holding lock.

Non-Executive Directors
Effective 2013-14 Non-Executive Director base fees were reduced by 30% to take into account the Company's reduced market capitalisation. For the 2014-15 financial year these fees have been increased by $5,000 per Director to recognise the additional travel demands being placed on directors following the recapitalisation of the Company and by a further 2.5% in line with the average increase in executive remuneration levels in the Company.

The composition of the Board has changed with the retirements during the year of Tony Froggatt and Colette Paull and the appointment of Jason Mozingo and Matt Wilson. Also Jesse Rogers and Keoni Schwartz served as Non-Executive Directors from 23 July 2013 to 4 November 2013.

All of the appointments have enhanced the range of attributes, experience, qualifications and skills across our Board and leadership team. With the talent that the Group has been able to attract to Executive and Non-Executive Director roles, we are now well positioned to successfully deliver the turnaround program. Our Executive team all have global experience along with deep insights from local markets in which they have worked. The organisational realignment is now complete, and the focus is firmly on getting on with the job.

Appreciating the complexity and change at Billabong this year, in this Remuneration Report we have endeavoured to present information which both meets regulatory requirements and conveys clear information about the context and circumstances in which decisions related to remuneration were made. We remain committed to the principle of aligning reward for suitably qualified executives with financial performance and shareholder returns during and beyond our turnaround.

Sally Pitkin
Human Resources & Remuneration Committee Chair

Remuneration Report (continued)

Given the extent of Non-Executive Director and KMP change in the company during 2013-14, for ease of reference the changes have been summarised in the table below.

2013-14 Non-Executive Director and Key Management Personnel changes	
16 July 2013	As a condition precedent to the Company entering into agreements with Altamont Capital Partners for long term refinancing, the Company announced its intention to appoint Scott Olivet as Executive Director, Managing Director and Chief Executive Officer. The Company also announced that Altamont Capital Partners would be permitted two representatives to the Board of Billabong.
23 July 2013	Jesse Rogers and Keoni Schwartz, representatives for Altamont Capital Partners, appointed Non-Executive Directors. Jesse and Keoni were to be put forward for re-election at the 2013 Annual General Meeting.
2 August 2013	Launa Inman ceased employment as Managing Director and Chief Executive Officer and resigned from her role of Executive Director.
5 August 2013	Paul Naude ceased employment as President Americas (having stepped aside from his role on 19 November 2012) and resigned from his role of Executive Director.
5 August 2013	Billabong announced that Peter Myers would commence as Acting Chief Executive Officer until 21 September 2013.
23 August 2013	Billabong announced Tony Froggatt's intention to retire as a Director of the Company following the forthcoming Annual General Meeting.
19 September 2013	Billabong announced that it had entered into binding agreements with certain entities affiliated with Centerbridge Partners, L.P. and Oaktree Capital Management, L.P. (together the "C/O Consortium") in relation to long term financing. The agreements enabled Billabong to repay in full its bridge loan facility from the Altamont Consortium. As a result, Scott Olivet's proposed appointment as Executive Director, Managing Director and Chief Executive Officer did not proceed with the Company announcing the appointment of Neil Fiske as Managing Director and Chief Executive Officer and the nomination of Jason Mozingo and Matt Wilson to the Board of Billabong as representatives of the C/O Consortium. Peter Myers stepped down from his role of Acting Chief Executive Officer.
21 September 2013	Neil Fiske commenced employment as Managing Director and Chief Executive Officer. Also appointed Executive Director.
25 September 2013	Jean-Louis Rodrigues promoted to Acting General Manager Europe, role confirmed on 10 December 2013.
8 October 2013	Ed Leasure promoted to Acting President Americas, role confirmed on 10 December 2013. Colin Haggerty stepped down from his role as Acting President Americas, effective 4 October 2013.
2 November 2013	Franco Fogliato ceased employment as General Manager Europe.
4 November 2013	Jason Mozingo and Matt Wilson appointed as Non-Executive Directors. Tony Froggatt, Jesse Rogers and Keoni Schwartz resigned from their roles as Non-Executive Directors.
19 November 2013	Colin Haggerty ceased employment as Group Executive Global Retail.
30 January 2014	Colette Paull resigned from her role as Non-Executive Director.
3 March 2014	Shannan North promoted from General Manager Asia Pacific to Global President Brand Billabong.
3 March 2014	Paul Burdekin promoted to Acting General Manager Asia Pacific, role confirmed 17 July 2014.
4 May 2014	Jeffrey Streader commenced employment as Chief Operating Officer.

Remuneration Report (continued)

Summary of the qualifications, experience and expertise of KMP appointed or promoted during 2013-14 and in place as at 30 June 2014:

2013-14 New and promoted Key Management Personnel profiles
Neil Fiske, Executive Director, Chief Executive Officer and Managing Director Neil Fiske has 25 years of experience in the consumer and retail industry as an operator, consultant and investor. Prior to joining Billabong, he was an Industry Partner to Canadian private equity firm Onex, where he acted as a senior advisor focused on retail. Neil was also CEO of Eddie Bauer, where he successfully turned the company from a struggling business to a revitalized brand under private equity ownership. From 2003 to 2007, Neil served as the CEO of Bath and Body Works, a division of NYSE listed Limited Brands where he reversed 26 months of negative same store sales within three months of joining, growing the revenues of the company from US$1.8 billion to US$2.5 billion in just over four years. From 1989 to 2003 Neil worked at the Boston Consulting Group, where he was a Partner in the Consumer and Retail Practice and worked for six years with Les Wexner on brand building at Limited Brands. Neil received an M.B.A from Harvard Business School and a B.A. in Political Economy from Williams College.
Jeffrey Streader, Chief Operating Officer Jeffrey Streader joined Billabong on 4 May 2014, bringing over thirty years' experience working in supply chain and operational leadership roles at Guess?, Kellwood, VF Corporation, Fasturn, and Oxford Industries. Jeffrey's career also includes leadership roles in sales, product development, technology, sourcing and strategy. Jeffrey holds a degree in Business Administration from Richard Stockton College in New Jersey. He has been a Board Member of WRAP (Worldwide Responsible Accredited Production) since 2007 and he has taught in the advanced study program at the Fashion Institute of Design and Merchandising.
Paul Burdekin, Acting General Manager Asia Pacific Paul Burdekin joined Billabong Australia in 2008 as General Manager for Tigerlily, and his brand portfolio quickly grew to include VZ, RVCA and Nixon. Prior to joining Billabong, 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.
Ed Leasure, President Americas Ed Leasure joined Billabong USA on 10 August 2008 when Billabong acquired Quiet Flight, a successful surf retail chain which Ed opened and owned and operated for many years. Ed initially joined the Company to serve as President of Quiet Flight but was later appointed to lead the entire US retail division. In October 2013 Ed was appointed to KMP role, Acting President Americas, this role was confirmed in December 2013. He holds a Bachelor of Business Administration.
Jean-Louis Rodrigues, General Manager Europe Jean-Louis Rodrigues joined Billabong 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.
Shannan North, Global President, Brand Billabong Also during the year, ongoing KMP, Shannan North changed roles. On 3 March 2014 Shannan North was promoted from the role of General Manager Asia Pacific to Global President Brand Billabong. Shannan started his career with Billabong in 1993 working in retail, marketing, sales and merchandising. Appointed General Manager Asia Pacific in 2004, Shannan grew the Company's revenue in the region from approximately $190 million in 2003-04 to over $450 million in 2012-13.

Profiles of new Non-Executive Directors can be found on page 15.

Remuneration Report (continued)

Summary - remuneration outcomes for the CEO and Key Management Personnel

Table A sets out the 2013-14 (non-statutory) remuneration outcomes of Billabong's current KMP. This table provides shareholders with a clear picture of rewards received over the year, excluding any payments in respect of the 2012-13 financial year which were paid in 2013-14 and reported in last year's Remuneration Report.

In accordance with Accounting Standards under the *Corporations Act 2001* for determining and measuring executive remuneration, including allocation across the vesting period for longer-term incentives, the 'non-statutory remuneration' data set out below do not reconcile directly to Table B: Statutory Remuneration Comparison. The difference between the tables is that Table B includes the share based remuneration allocation and long service leave expenses for each KMP reported during the year.

Table: A[1]: 2013-14 Remuneration outcomes

	Neil Fiske[2]	Paul Burdekin[3]	Ed Leasure[4]	Peter Myers[5]	Shannan North[6]	Jean-Louis Rodrigues[7]	Jeffrey Streader[8]
Cash Salary	775,343	115,068	277,822	747,055	695,463	310,587	95,194
Sign on incentive (cash)	250,000	---	---	---	---	---	54,448
Sign on incentive (equity)	589,286	---	---	---	---	---	---
Retention earned (cash)	---	---	---	---	---	147,732	---
Short term incentive (STI) earned (cash)	---	54,396	---	---	175,875	91,614	---
Short term incentive (STI) vested (equity)	---	---	---	---	5,084	---	---
Other payments†	---	---		450,000	---	---	---
Non-monetary benefits^	135,817	3,330	6,784	9,000	5,500	23,478	1,269
Superannuation	---	3,376	---	17,775	17,775	---	---
Long term incentives (value vested during the year)*	---	4,696	2,629	---	---	5,322	---
Total remuneration realised	1,750,446	180,866	287,235	1,223,830	899,697	578,733	150,911

1 *This Table A excludes details of accrued long service leave and accounting charges for share based payments. Details of these items are set out in Table B on page 30-33.*

2 *Commenced 21 September 2013. The value of the equity sign on incentive represents the fair market value of shares at grant date ($0.47 per share).*

3 *Promoted to KMP role 3 March 2014. Cash salary and STI reflect period in KMP role only.*

4 *Promoted to KMP role 8 October 2013. Cash salary and STI reflect period in KMP role only.*

5 *Was Acting CEO for the period 5 August 2013 to 19 September 2013. During this period received a higher duties allowance.*

6 *Promoted from General Manager Asia Pacific to Global President, Brand Billabong on 3 March 2014. Short term incentive (equity) vested represents the volume weighted average price of performance shares ($0.35) at vesting on 19 July 2013. These deferred shares were awarded in July 2011.*

7 *Promoted to KMP role 25 September 2013. Base salary reflect salary paid for the period in KMP role only. STI cash payment is for full year.*

8 *Commenced 4 May 2014.*

† *Peter Myers received a one off bonus payment during the year in recognition of his contribution to the successful re-financing/re-capitalisation of the Company, details are set out on page 36.*

^ *These amounts for certain KMP include travel from home to work, clothing allowance, vehicle allowance, health insurance and in France, an annual statutory payment. Non-monetary benefits for Neil Fiske include reimbursement for international and domestic relocation expenses, health cover, partner travel and the provision of a rental apartment to utilise whilst working at the USA office. The value of the benefits does not include fringe benefits tax payable.*

* *The volume weighted average price of performance shares ($0.49) at vesting on 30 August 2013. These retention based shares were awarded in September 2011 under the Executive Performance Share Plan.*

Remuneration Report (continued)

CONTENTS

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

Remuneration Report (continued)

BILLABONG GROUP PERSONNEL COVERED BY THIS REPORT

The 2013-14 Billabong Group Executive Directors, Non-Executive Directors and other Key Management Personnel (KMP) who held office during the financial year are listed below.

Executive Directors	
Neil Fiske	Managing Director and Chief Executive Officer (CEO) from 21 September 2013.
Launa Inman	Managing Director and CEO until 2 August 2013.
Paul Naude	President of the Americas (President Americas) until 5 August 2013.

Other Key Management Personnel (KMP)	
Paul Burdekin	Acting General Manager, Billabong Group Asia Pacific (GM Asia Pacific) from 3 March 2014. Role confirmed 17 July 2014.
Franco Fogliato	General Manager, Billabong Group Europe (GM Europe) until 2 November 2013.
Colin Haggerty	Group Executive - Global Retail from 5 July 2012 until 19 November 2013. During the year also performed the role of Acting President Americas from 19 November 2012 to 4 October 2013.
Ed Leasure	Acting President Americas (President Americas) from 8 October 2013. Role confirmed 10 December 2013.
Peter Myers	Chief Financial Officer (CFO) from 14 January 2013. During the year also performed the role of Acting Chief Executive Officer from 5 August 2013 to 19 September 2013.
Shannan North	General Manager, Billabong Group Asia Pacific (GM Asia Pacific) until 3 March 2014, then Global President, Brand Billabong from 3 March 2014.
Jean-Louis Rodrigues	Acting General Manager, Billabong Group Europe (GM Europe) from 25 September 2013. Role confirmed 10 December 2013.
Jeffrey Streader	Global Chief Operating Officer (COO) from 4 May 2014.

Non-Executive Directors	
Ian Pollard	Chairman
Tony Froggatt	Director until 4 November 2013.
Gordon Merchant AM	Director
Howard Mowlem	Director
Jason Mozingo	Director from 4 November 2013.
Colette Paull	Director until 30 January 2014.
Sally Pitkin	Director
Jesse Rogers	Director from 23 July 2013 until 4 November 2013.
Keoni Schwartz	Director from 23 July 2013 until 4 November 2013.
Matt Wilson	Director from 4 November 2013

Remuneration Report (continued)

2013-14 REMUNERATION IN DEPTH

1. INTRODUCTION

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

The Remuneration Report details remuneration information for the CEO, KMP and Non-Executive Directors as listed on page 26.

2. REMUNERATION GOVERNANCE

The Board is responsible for ensuring the Group's remuneration strategy is equitable and aligned with company performance and shareholder interests. To assist with this responsibility, the Board has a Human Resource 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 and other stakeholders;
- 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 Australia and any other geographic locations where the Group has operations;
- link reward to the creation of value for shareholders; and
- comply with all relevant legislation and regulations including the Corporations Act, ASX Listing Rules and Corporate Governance Principles and Recommendations.

Further details can be found in the Group's Human Resource and Remuneration Committee Charter which is available at www.billabongbiz.com. During the year, the Company also added its Group Remuneration Policy to its corporate website, this Policy documents the Group's overall approach to remuneration.

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.

The Group's remuneration policy is reviewed annually by the Committee.

Recommendation provided

No remuneration recommendations from independent remuneration advisors were received during the 2013-14 financial year.

Remuneration Report (continued)

3. REMUNERATION PRINCIPLES, STRATEGY AND OUTCOMES

Remuneration principles

Billabong's approach to remuneration is framed by the strategic direction and operational demands of the business, the international context in which the business operates, sustainable shareholder returns, the regulatory environment and high standards of governance.

A number of principles underpin our remuneration policy:

Attract, motivate and retain top talent

- Billabong operates in a global and local markets where it competes for a limited pool of talent. In order to attract, motivate and retain high calibre people, Billabong aims to provide a market competitive reward opportunity which encourages retention and high performance.

Support the execution of business strategy

- Apply performance targets in the performance management system and in the awarding of performance based rewards that support Billabong's strategic objectives and business performance expectations.
- Apply performance metrics that are explicitly defined, valid and verifiable and relevant to the employee's role in the organisation.

Alignment with business performance and sustainable shareholder return

- Create alignment within the remuneration structure between senior executive remuneration, sustainable business performance and shareholder returns, including through long term equity based incentives and performance metrics**.**

Fairness, equity and consistency

- Structure remuneration arrangements to achieve equity for like positions.
- Prepare clearly documented remuneration policies and processes and make them available to all employees. Implement a robust and transparent remuneration decision making process and performance review system.

Remuneration strategy

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

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

Remuneration Report (continued)

Remuneration strategy (continued)

Business objective
On 10 December 2013, Billabong announced a seven part turnaround strategy (brand, product, marketing, omni-channel, supply chain, organisation and financial discipline). The opportunity is to lay the foundation for years of profit growth and sustained shareholder returns by focusing on "fewer, bigger, better" brands and initiatives across the Company. The company's vision remains: "To maintain a global leadership position in the design, marketing, wholesaling and retailing of action sports inspired apparel and accessories targeted at the youth market, and, in turn, build long-term value for stakeholders."

Remuneration strategy objectives and approach	
Align executive remuneration to company performance and deliver results to shareholders. • For 2013-14, we simplified focus on financial performance with STI based solely on EBITDA. • LTI continues to be measured against Total Shareholder Return (TSR) and Earnings Per Share (EPS). • Short and long-term components of remuneration are "at risk" based on performance and return to shareholders.	**Attract and retain executive talent in a highly competitive global market.** • Reward competitively in the global markets in which the Group operates, which include Asia Pacific, the Americas and Europe. • Offer remuneration that balances fixed and variable ("at risk") short and long-term incentives.

	Fixed remuneration	Short Term Incentive (STI)	Long Term Incentive (LTI)
Consists of…	Base salary plus benefits (which vary by country).	Annual payment opportunity (cash or part cash, part deferred equity for some participants).	An offer to participate in the Executive Long-Term Incentive Plan (ELTIP). Granted annually at the discretion of the Board.
Rewards for…	Experience, skills and capabilities.	Financial performance over a 12-month period (EBITDA).	Company's EPS target for the financial year ended 30 June 2016 and achievement of TSR relative to a comparator group, from 1 January 2014 through to 30 September 2016.
Is…	**Fixed.** Reviewed annually.	**At risk.** Wholly dependent on achieving agreed performance objectives.	**At risk.** Awards depend on hurdles being met. Value to the executive depends wholly on the Group's performance.
Determined by…	Referencing global and local market movements for the role, market pay comparisons, individual experience and role accountabilities.	Performance hurdles focus executive attention on the Group's critical performance metrics. STI is only payable if financial targets are achieved.	Alignment to the Group's business strategy and requirement for key executives to drive company performance. Performance is assessed using EPS and TSR. EPS is a financial indicator of the Group's performance over a certain period. TSR demonstrates value returned to shareholders relative to a comparator group.

Remuneration Report (continued)

Statutory remuneration outcomes

Table B sets out statutory remuneration for the KMP. It should be noted that amounts in the share based payments columns represent accounting expenses and not vested awards.

Table B: Statutory remuneration comparison

	Neil Fiske[1]		Launa Inman[2]		Paul Naude[3]	
	2014	2013	2014	2013	2014	2013
Cash salary	715,701	---	152,408	1,185,154	63,631	510,325
Sign-on incentive cash	250,000	---	---	---	---	---
Sign-on incentive equity	589,286	---	---	---	---	---
Retention payment - cash	---	---	---	650,000	---	---
Retention payment - equity	---	---	---	---	---	---
STIP payment – cash	---	---	---	---	---	---
STIP deferred – equity*	---	---	---	---	---	---
Other payments	---	---	---	---	---	---
Non-monetary benefits†	135,817	---	27,680	2,500	9,771	16,683
Superannuation	---	---	19,826	16,470	858	3,190
Annual leave	59,642	---	12,701	98,763	5,303	41,728
Long-service leave	---	---	---	---	---	---
Termination benefits	---	---	1,232,909	---	762,278	---
Share based payments- options‡	---	---	---	---	(1,110,542)	237,973
Share based payments- rights⊥	148,195	---	(61,194)	61,194	---	(77,500)
Total remuneration	1,898,641	---	1,384,330	2,014,081	(268,701)	732,399
% of Total Remuneration provided as performance related pay^	7.8%	---	0.0%	3.0%	0.0%	21.9%
% of Total Remuneration provided as non-performance related pay♯	92. 2%	---	100.0%	97.0%	100%	78.1%

1 *Commenced 21 September 2013. The value of the equity sign on incentive represents the fair market value of shares at grant date ($0.47 per share).*

2 *Ceased performing her role on 2 August 2013. Remained in employment and available to assist the Company through a transition position until 16 August 2013.*

3 *During the year was on leave without pay from 1 July 2013 to 16 July 2013. Employment ceased 5 August 2013. Executive Director resignation effective same date.*

Remuneration Report (continued)

Statutory remuneration outcomes (continued)

	Paul Burdekin[4]		Franco Fogliato[5]		Colin Haggerty[6]	
	2014	2013	2014	2013	2014	2013
Cash salary	106,217	---	418,230	528,478	329,416	600,001
Sign-on incentive cash	---	---	---	---	---	---
Sign-on incentive equity	---	---	---	---	---	---
Retention payment - cash	---	---	---	221,377	---	255,000
Retention payment - equity	---	---	---	90,422	---	85,000
STIP payment – cash	54,396	---	---	---	---	---
STIP deferred – equity*	---	---	---	---	---	---
Other payments	---	---	---	---	---	---
Non-monetary benefits†	3,300	---	5,348	13,456	24,167	---
Superannuation	3,376	---	---	---	17,775	15,837
Annual leave	8,851	---	44,493	56,221	25,793	49,406
Long-service leave	10,928	---	---	---	---	---
Termination benefits	---	---	631,040	---	461,572	---
Share based payments- options‡	---	---	(418,027)	91,206	---	---
Share based payments- rights⊥	5,297	---	(18,495)	(20,117)	(16,445)	16,445
Total remuneration	192,365	---	662,589	981,043	842,278	1,021,689
% of Total Remuneration provided as performance related pay^	33.0%	---	0.0%	11.3%	0.0%	1.6%
% of Total Remuneration provided as non-performance related pay#	67.0%	---	100.0%	88.7%	100.0%	98.4%

4 *Promoted to KMP role 3 March 2014. Cash salary and STI reflect period in KMP role only.*

5 *Ceased performing his role on 2 November 2013. Remained in employment and available to assist the Company through a transition period until 2 March 2014.*

6 *Ceased performing his role on 19 November 2013. Remained in employment and available to assist the Company through a transition period until 3 January 2014.*

Remuneration Report (continued)

Statutory remuneration outcomes (continued)

	Ed Leasure[7]		Peter Myers[8]		Shannan North[9]	
	2014	2013	2014	2013	2014	2013
Cash salary	256,451	---	689,589	295,004	641,966	646,154
Sign-on incentive cash	---	---	---	---	---	---
Sign-on incentive equity	---	---	---	---	---	---
Retention payment - cash	---	---	---	67,969	---	248,500
Retention payment - equity	---	---	---	22,656	---	101,500
STIP payment – cash	---	---	---	---	175,875	---
STIP deferred – equity*	---	---	---	---	19,542	---
Other payments	---	---	450,000	---	---	---
Non-monetary benefits†	6,784	---	9,000	380	5,500	4,998
Superannuation	---	---	17,775	7,285	17,775	16,470
Annual leave	21,371	---	57,466	25,669	53,497	53,846
Long-service leave	---	---	---	---	37,971	11,558
Termination benefits	---	---	---	---	---	---
Share based payments- options‡	---	---	---	---	47,595	142,784
Share based payments- rights⊥	35,445	---	38,800	---	87,901	(20,117)
Total remuneration	320,051	---	1,262,630	418,963	1,087,622	1,205,693
% of Total Remuneration provided as performance related pay^	11. 1%	---	38.7%	0.0%	30.4%	11.8%
% of Total Remuneration provided as non-performance related pay♯	88.9%	---	61.3%	100.0%	69.6 %	88.2%

7 *Promoted to KMP role 8 October 2013. Cash salary reflects period in KMP role only.*

8 *Was Acting CEO for the period 5 August 2013 to 19 September 2013. During this period received a higher duties allowance. Received a one off bonus payment during the year in recognition of his contribution to the successful re-financing/re-capitalisation of the Company, details are set out on page 36.*

9 *Promoted from General Manager Asia Pacific to Global President, Brand Billabong on 3 March 2014.*

Remuneration Report (continued)

Statutory remuneration outcomes (continued)

	Jean-Louis Rodrigues[10]		Jeffrey Streader[11]		Total for all executives	
	2014	2013	2014	2013	2014	2013
Cash salary	280,723	---	87,871	---	3,742,203	3,765,116
Sign-on incentive cash	---	---	54,448	---	304,448	---
Sign-on incentive equity	---	---	---	---	589,286	---
Retention payment - cash	147,732	---	---	---	147,732	1,442,846
Retention payment - equity	---	---	---	---	---	299,578
STIP payment – cash	91,614	---	---	---	321,885	---
STIP deferred – equity*	10,188	---	---	---	29,730	---
Other payments	---	---	---	---	450,000	---
Non-monetary benefits†	23,478	---	1,269	---	252,114	38,017
Superannuation	---	---	---	---	77,385	59,252
Annual leave	29,864	---	7,323	---	326,304	325,633
Long-service leave	---	---	---	---	48,899	11,558
Termination benefits	---	---	---	---	3,087,799	---
Share based payments- options‡	---	---	---	---	(1,480,974)	471,963
Share based payments- rights⊥	30,087	---	---	---	249,591	(40,095)
Total remuneration	613,686	---	150,911	---	8,146,402	6,373,868
% of Total Remuneration provided as performance related pay^	21.5%	---	0.0%	---	11.0%	7.4%
% of Total Remuneration provided as non-performance related pay♯	78.5%	---	100.0%	---	89.0%	92.6%

10 *Promoted to KMP role 25 September 2013. Cash salary and STI reflect period in KMP role only.*

11 *Commenced 4 May 2014.*

* *STI payment – equity represents one third of the value of the portion of the STI (25%) granted in respect of the 2013-14 financial year and deferred into equity for a 2 year period.*

† *These amounts for certain KMP include travel from home to work, clothing allowance, vehicle allowance, health insurance and in France, an annual statutory payment. Non-monetary benefits for Neil Fiske include reimbursement for international and domestic relocation expenses, health cover, partner travel and the provision of a rental apartment to utilise whilst working at the USA office. The value of the benefits does not include fringe benefits tax payable.*

‡ *Includes an accounting charge recognised in the Group's income statement based on the fair value of the award at the date of grant amortised on a straight line basis over the vesting period of the EPRP. The accounting charge is reflected as an expense in the financial statements regardless of whether the EPRP may fully vest, partially vest or not vest at all.*

⊥ *Includes an accounting charge recognised in the Group's income statement in respect of the long term incentive plan. The accounting charge reflects at 30 June 2014 and 30 June 2013 the most probable likelihood of the 2012-13 and 2013-14 grants vesting to the individual. Also includes negative amounts for the write back in the accumulated expense previously recognised in the Group's income statement in respect of the long term incentive plan as a result of performance hurdles and retention requirements in relation to certain components of the long term incentive plan not being met or which are unlikely to be met.*

^ *% of Total Remuneration received as performance related pay includes the total of STI payment cash, STI deferred equity, other payments and share based payments – options and rights.*

♯ *% of Total Remuneration received as non-performance related pay includes the total of cash salary, sign on incentive – cash and equity, retention payment – cash and equity, non-monetary benefits, superannuation, annual and long service leave and termination benefits.*

Remuneration Report (continued)

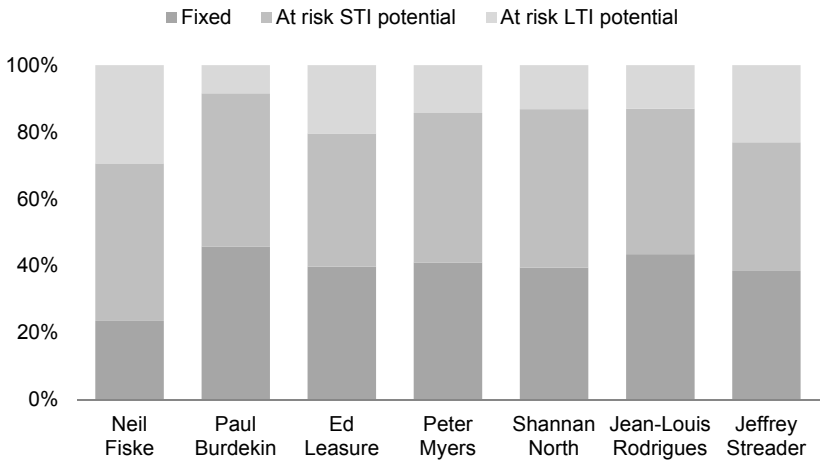
Executive remuneration structure

Remuneration mix
Fixed annual remuneration provides a "base" level of remuneration. Short and long term variable ("at risk") incentives reward executives for meeting and exceeding pre-determined performance targets linked to the achievement of the Group's financial objectives. This links variable reward to business success necessary for value creation for shareholders.

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 senior executive reward and performance.

As per Table B, for current KMP the percentage of pay delivered as performance related during 2013-14 ranged from 0% to 38.7%. As there are a number of KMP who commenced during the year and a number of outcomes which are 'one-off' (eg. sign on incentives, relocation benefits and a retention incentive), Chart A (non-statutory) has been provided to portray annualised remuneration mix for on-going KMP without the various 2013-14 one-off outcomes. Chart A includes annualised cash salary, superannuation, target and stretch short term incentive potential and long term incentive awards quantified based on 5 day volume weighted average price prior to and including grant date (for 2013-14 this was $0.43).

Chart A: Remuneration mix (annualised cash salary, STI and LTI potential)



Fixed annual remuneration

Fixed annual remuneration typically includes base salary, non-cash benefits (such as vehicle, clothing allowance and health cover) and retirement contributions. It rewards executives for effective delivery of the requirements of their roles and behaving in accordance with the Group's culture and values.

KMP remuneration levels are reviewed by the Human Resource and Remuneration Committee annually, and upon promotion, against the Group's remuneration principles and strategy. Adjustments to fixed annual remuneration are determined by individual performance and by referencing market data. While the 2012-13 changes to the Company's key financial metrics presented challenges to realigning total remuneration to the market positioning for like positions, the Company has appointed Executives at salaries commensurate with the Company's context and market data, with remuneration more heavily skewed to incentives for financial performance.

In respect of 2013-14 the Board determined that fixed remuneration would not be increased for KMPs continuing in the same role.

Remuneration Report (continued)

Fixed annual remuneration (continued)

Retention arrangement – GM Europe, Jean-Louis Rodrigues
A retention arrangement for Jean-Louis Rodrigues was put in place at the time of his promotion given the degree of uncertainty and change in the European business.

At the time of Jean-Louis' promotion the business was in the midst of a redundancy plan which resulted in a total workforce reduction of 51 positions. As part of the plan, which was agreed with the Works Council, with the exception of a small number of departments, employees had the option to take up a voluntary redundancy. As a result the European leadership team reduced by 28.5%, including the CFO and HR Director roles. The changes and the challenges ahead for Jean-Louis Rodrigues combined with the critical need to retain him to lead and stabilise the European business, meant the retention incentive was appropriate in the circumstances.

The arrangement consists of a payment of EUR100,000 payable on 31 July 2014 on the basis that Jean-Louis remained employed up to and including 30 June 2014 and adhered to the terms of his Employment Agreement.

Short Term Incentive structure

Short Term Incentive (STI)	
What is the purpose of the STI?	STI performance hurdles focus executive attention on the Group's critical performance metrics. STI rewards executives for achieving Billabong Group performance targets against expectations.
Who participates?	All KMP and selected senior executives.
How much can be earned under the STI Plan?	The target STI opportunity for KMP starts at 60% of base salary and goes up to 100% of base salary for certain roles. For stretch/over performance, KMP generally have the ability to earn between an additional 20% to 40% of base salary or in the case of the CEO an additional, 100% of base salary.
What are the performance conditions?	No STI is payable unless financial targets are achieved. For 2013-14, financial targets were Global Group EBITDA for the CEO, COO and CFO and a combination of Global Group EBITDA and Regional EBITDA for other KMP. Details of the performance measures (KPIs) set for the KMP for 2013-14 are provided in Table C on page 36.
Over what period is it measured?	Performance is measured over the 12 month period from 1 July to 30 June. STI payments are made early the following September.
How is it paid?	The STI reward is a combination of a cash payment (75%) and deferred equity (25%) which vests after a two year period. The deferred portion is forfeited if the executive resigns before the end of the two year vesting period. For 2013-14 STI deferral is applicable for all KMP except GM Asia Pacific, Paul Burdekin. For 2014-15 25% of any STI payment made to him will be subject to deferral. Dividends are paid on any STI deferral earned to the extent dividends are paid on the Company's ordinary shares.
When and how is it reviewed?	STI measures are reviewed annually in line with a review of budgets and the annual business plan.
Who assesses performance against targets?	The Board assesses the CEO's performance against KPIs. The CEO provides an assessment of performance for his direct reports to the Human Resource and Remuneration Committee. The Human Resource and Remuneration Committee reviews this assessment and makes recommendations to the Board.

Remuneration Report (continued)

Short Term Incentive structure (continued)

Summary of executive performance measures
The table below shows the 2013-14 performance measures (KPIs) set for KMP.

Table C: 2013-14 KPIs for KMP[1]

Executive	Summary of performance measures / KPIs	Weighting	Achievement
CEO & Managing Director Neil Fiske	Global Group EBITDA	100%	Not achieved
GM Asia Pacific Paul Burdekin	Various KPIs related to brand performance applied prior to promotion to KMP role.	100%	Partial achievement
	Additional KPI related to Australasia EBITDA assigned following promotion to KMP role.	100%	Partial achievement
President Americas Ed Leasure	Global Group EBITDA Americas EBITDA	33% 67%	Not achieved Not achieved
CFO Peter Myers	Global Group EBITDA	100%	Not achieved
Global President, Brand Billabong Shannan North	As promotion to new role occurred in March 2014, KPIs for prior role (GM Asia Pacific) applied for 2013-14:		
	Global Group EBITDA Australasia EBITDA	33% 67%	Not achieved Partial achievement
GM Europe Jean-Louis Rodrigues	Global Group EBITDA Europe EBITDA	33% 67%	Not achieved Partial achievement

1 *Jeffrey Streader commenced employment 4 May 2014 therefore was not eligible to participate in 2013-14 STI plan.*

One-off bonus payment – CFO, Peter Myers
CFO, Peter Myers played a significant and unusually demanding role in the successful re-financing/re-capitalisation of the Company. In recognition of this the Board determined a one off cash bonus was appropriate. This bonus is represented under 'other payments' in Table A and B on pages 24 and 30-33.

Short Term Incentive (STI) outcomes

In respect of 2013-14 performance, STI payments were made to GM Asia Pacific, Paul Burdekin, Global President Brand Billabong, Shannan North and GM Europe, Jean-Louis Rodrigues. These payments were in relation to EBITDA performance of Australasia and Europe. Table D shows 2013-14 cash and equity STI earned. The equity portion is deferred for a period of 2 years until 1 July 2016. Note that the amounts for GM Asia Pacific, Paul Burdekin and GM Europe, Jean-Louis Rodrigues are reflective of the period during 2013-14 they held KMP roles.

Table D: 2013-14 STI payments

Executive	2013-14 STI payment (cash)	2013-14 STI payment (equity)
GM Asia Pacific Paul Burdekin	$54,396	---
Global President, Brand Billabong Shannan North[1]	$175,875	$58,625
GM Europe Jean-Louis Rodrigues	$91,614	$30,565

1 *Until 3 March 2014 was GM Asia Pacific, 2013-14 KPIs were related to this role.*

Remuneration Report (continued)

Long Term Incentive structure

Long Term Incentive (LTI)	
What is the purpose of the ELTIP?	LTI at Billabong is delivered through the ELTIP. The ELTIP is a long term incentive plan that focuses executives on the long term performance of the Group. It provides executives with an equity-based reward opportunity that vests based on the achievement of certain performance hurdles.
Who participates?	Participants comprise the executives and senior management of the Group who play a role in driving the growth strategy of the Group. All KMP participate. In 2013-14, no awards under the ELTIP were made to Jeffrey Streader as he commenced on 4 May 2014.
What is the vehicle?	Awards granted in 2013-14 are in the form of performance rights which are equity settled share based payments. If the performance hurdles are met, the employee will be allocated the relevant number of shares as soon as practicable following the vesting date. An employee awarded performance rights is not legally entitled to shares in the Company before the rights allocated under the ELTIP vest. Once vested, each right entitles the employee to receive one share in the Company.
What are the performance conditions and what is the performance period?	Awards under the ELTIP vest only if the performance hurdles are satisfied in the relevant performance period. The performance periods are summarised in the table below:

Grant	Performance hurdle		% of award that vests	Performance Period
2013-14	EPS performance	2.0 cents per share	50%	Financial year ended 30 June 2016
		4.0 cents per share	100%	
	TSR performance relative to comparator group	50th percentile or above	50%	1 January 2014 until 30 September 2016
		75th percentile or above	100%	

50% of awards are based on Executives meeting the Group's three-year EPS performance targets. EPS is a financial indicator of the Group's earnings in the final year of the performance period. In previous periods the EPS performance hurdle was determined based upon 3 year compound growth rates in EPS from a base year. However, due to the significant changes to the capital structure of the Group, the Board has selected EPS (rather than the growth rate of EPS) as the appropriate internal performance metric.

50% of awards are based on relative TSR. Relative TSR demonstrates how the Group has returned value to its shareholders relative to a select comparator group over a three year period. This means executives will be rewarded only where Billabong's shareholder return has at least met the median of its comparator group, with 100% of the ELTIP grant vesting only if the Group's performance is in the upper quartile of the selected comparator group.

With the changes to the Company's market capitalisation, the Board has reviewed the comparator group to now comprise of 40 ASX listed companies within an appropriate market capitalisation range which have significant overseas operations and/or are within a similar industry sector to Billabong. Over 75% of those companies are, like Billabong, classified as "Consumer Discretionary". The companies included in the TSR comparator group are listed below.

Each year, the Human Resource and Remuneration Committee considers the market environment, the Group's business strategy and performance expectations and shareholder expectations before setting the performance targets for the awards to be granted that year.

Executive Director grants are subject to shareholder approval.

Remuneration Report (continued)

Long Term Incentive structure (continued)

What companies are in the TSR comparator group?	*Acrux Limited* *Ainsworth Game Technology Limited* *ARB Corporation Limited* *Ardent Leisure Group* *Aristocrat Leisure Limited* *Ausenco Limited* *Australian Agricultural Company Limited* *Automotive Holdings Group Limited* *Boart Longyear Limited* *Breville Group Limited* *Cash Converters International* *Codan Limited* *David Jones Limited* *Domino's Pizza Enterprises Limited* *Energy World Corporation Ltd* *Fairfax Media Limited* *Fleetwood Corporation Limited* *G8 Education Limited* *GUD Holdings Limited* *Harvey Norman Holdings Ltd* *InvoCare Limited* *JB Hi-Fi Limited* *Kathmandu Holdings Limited* *Macquarie Atlas Roads Group* *Myer Holdings Limited* *Navitas Limited* *Pacific Brands Limited* *Premier Investments Limited* *Retail Food Group Limited* *Ridley Corporation Limited* *Seven West Media Limited* *Sirtex Medical Limited* *Southern Cross Media Group Limited* *STW Communications Group Limited* *Super Retail Group Limited* *Tabcorp Holdings Limited* *Ten Network Holdings Limited* *The Reject Shop Limited* *Webjet Limited* *Wotif.com Holdings Limited*
How is it paid?	Grants are approved annually and vest no earlier than the third anniversary of the grant being made, subject to meeting the performance hurdles in the relevant performance period. The performance periods for outstanding awards are as follows:

Grant approved	Date granted	Performance period	Vesting subject to performance testing
2011-12	1 September 2011[1]	From July 2011 to June 2014	August 2014
2012-13	21 February 2013	From July 2012 to June 2015	August 2015
2013-14	18 December 2013	For EPS portion of grant - Financial year ended 30 June 2016 For TSR portion of grant - 1 January 2014 until 30 September 2016	October 2016

[1] *For Executive Directors, the date granted was 1 November 2011.*

Executives cannot vote nor receive dividends in respect of unvested grants. Instead, any dividends earned are held in trust during the performance period with the dividends payable at the end of the performance period only on rights that vest. If no rights vest, no dividends are payable.

When and how is performance reviewed?	At the end of each performance period, the Human Resource and Remuneration Committee consider the relevant performance measures and determine the extent to which the awards should vest.
How are performance conditions set?	Performance hurdles are set in line with economic conditions and business objectives and are designed to be challenging but ultimately achievable if the Group performs in accordance with its business strategy. Each year, prior to awards being granted, the Human Resource and Remuneration Committee considers the market environment, the Group's business strategy, performance expectations and shareholder expectations and sets the performance targets for the awards to be granted.
What happens if a change of control occurs?	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, is lapsed or forfeited or remains subject to the applicable conditions and/or performance period; or becomes subject to substitute or varied conditions and/or performance period.
Who assesses performance against targets?	The Human Resource and Remuneration Committee.

Remuneration Report (continued)

Equity awards

Details of equity instruments, comprising performance rights, provided as remuneration to each KMP in the 2013-14 financial year are set out in Table E. When vested, each instrument will entitle the holder to one ordinary share of the Company. Rights will vest only if applicable performance hurdles and/or service conditions are satisfied in the relevant performance period.

Table E: Rights

Name	Number of rights awarded during 2013-14	Number of rights vested during 2013-14
Executive Directors		
Neil Fiske (approved at the 2013 Annual General Meeting)	2,242,429	---
Other Key Management Personnel		
Paul Burdekin[1]	---	9,638
Franco Fogliato	---	10,528
Ed Leasure[1]	447,584	5,397
Peter Myers	587,112	---
Shannan North[2]	485,887	14,403
Jean-Louis Rodrigues[1]	275,636	10,923

1 *Rights vested represent awards granted as non-hurdled, retention based awards in 2011 under the former Executive Performance Share Plan.*

2 *Rights vested represent deferred short term incentive earned in respect of the 2010-11 financial year.*

During the year ended 30 June 2014 the assessed fair value at grant date of rights granted under the ELTIP were for the performance rights tested under the EPS performance hurdle $0.43 per right and the performance rights tested under the TSR performance hurdle $0.34 per right. The assessed fair value at grant date of rights granted under the EPSP during the year ended 30 June 2013 was $1.12. The fair value at grant date is determined by reference to the Company's share price at grant date, taking into account the terms and conditions under which the rights were granted the expected dividend yield and the expected price volatility of the underlying share. Participants do not need to pay for awards on grant, vesting or exercise.

Long Term Incentive (LTI) outcomes

During 2013-14 no hurdled LTI awards vested. Since the introduction of a hurdled LTI plan in 2004, only two grants have vested. The 2004-05 grants vested fully in 2006-07 at 100% based on growth in EPS in excess of 20%. The 2005-06 grant vested partially in 2007-08 at 87.5% based on 17.5% growth in EPS. No other hurdled awards have met the required performance hurdles for vesting, including the tranche granted in 2011-12, which did not meet the required relative TSR and EPS growth targets, and the outstanding EPRP awards granted in 2008-09.

Non-hurdled, retention based awards granted in 2011 under the former Executive Performance Share Plan vested in September 2013. As a result, Paul Burdekin, Ed Leasure and Jean-Louis Rodrigues each received vested shares. Details of these can be found in Table E.

Deferred STI awarded in 2011 vested in July 2013. As a result, Shannan North received vested shares. Details of these can be found in Table E.

Remuneration Report (continued)

Other equity arrangements

Executive Performance and Retention Plan (EPRP)
The EPRP was a one-off initiative in 2008-09 which requires executives to achieve two Total Shareholder Return (TSR) performance targets: a 'gateway' hurdle which requires above median TSR performance relative to a comparator group and a 'stretch' hurdle requiring the achievement of a 120% target over five years. Under the EPRP, Shannan North, Paul Naude and Franco Fogliato were granted options. As Paul ceased employment during the year his options were forfeited. Franco Fogliato ceased performing his role on 2 November 2013 and as a result his options were also forfeited. Shannan North's options lapsed as a result of the required hurdles not being met.

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

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

Table F: Terms and conditions of each grant of options under the EPRP

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date
31 October 2008	31 October 2013	31 October 2015	$11.08[1]	$2.27
24 November 2008	24 November 2013	24 November 2015	$10.80	$1.45

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

Table G: EPRP outcomes

Name	EPRP options		
	Year granted	Vested %	Forfeited or lapsed %
Paul Naude[1]	2009	---	100%
Franco Fogliato[2]	2009	---	100%
Shannan North	2009	---	100%

1 *Employment ceased 5 August 2013, subsequently, all outstanding EPRP options were forfeited during the year.*
2 *Employment ceased 2 November 2013, subsequently, all outstanding EPRP options were forfeited during the year.*

Other Group Executives
As a result of being suspended on the Australian Stock Exchange for a period in May 2013, certain legal limitations applied to Billabong's ability to make equity awards under its LTI plan for a 12 month period following the suspension. These limitations did not apply to certain senior executives and, as a result, a total of 6 senior executives (including 5 KMP) received equity awards under the ELTIP.

As a consequence of these limitations, the Company put in place alternative arrangements for a total of 45 employees. Instead of receiving equity awards under the ELTIP, these employees instead have the potential to receive a fixed cash amount if the same EPS and relative TSR hurdles are achieved as those applicable to the ELTIP.

Equity arrangements for Billabong Employees
No other equity arrangements were offered to Billabong Employees in 2013-14.

Remuneration Report (continued)

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 the terms of employment and notice periods are set out in Table H. Contractual terms vary due to the timing of contracts, individual negotiations and different local market practices.

Table H: Executive contracts summary

	Date of contract	Term of contract	Notice period required to be given by the Company	Maximum contractual payment for termination by the Company without cause
CEO & Managing Director Neil Fiske	20 September 2013	On-going	12 months	Payment in lieu of notice[1]
GM Asia Pacific Paul Burdekin	18 December 2007	On-going	12 weeks	Payment in lieu of notice
President Americas Ed Leasure	1 July 2012	30 June 2015	6 months	6 months base salary or base salary until 30 June 2015 (whichever is the lesser).
CFO Peter Myers	11 January 2013	On-going	6 months	Payment in lieu of notice
Global President Brand Billabong Shannan North	9 August 2011	On-going	12 months	Payment in lieu of notice[1]
GM Europe Jean-Louis Rodrigues	13 September 2008	On-going	6 months	Payment in lieu of notice
COO Jeffrey Streader	4 May 2014	On-going	12 months	12 months base salary[1]

[1] *Payment will be 'scaled back' if it would otherwise exceed the 12 month average base salary termination benefit cap applicable under Australian law.*

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-Louise Rodrigues, there is no restraint.

Remuneration Report (continued)

Termination Arrangements

- Managing Director and CEO, Launa Inman ceased performing her role on 2 August 2013. She remained in employment and available to assist the Company through a transition period until 16 August 2013. As per the terms of her Executive Employment Agreement, the conditions of which were approved by shareholders at the 2012 Annual General Meeting, Launa Inman received 12 months base remuneration in lieu of notice upon her employment ceasing.
- President Americas, Paul Naude's employment ceased effective 5 August 2013. On the same date his resignation as Executive Director was effective. Upon his employment ceasing Paul Naude received approximately 7.6 months base remuneration.
- General Manager Europe, Franco Fogliato's employment ceased effective 2 November 2013. As per his Executive Agreement, upon ceasing employment Franco Fogliato received 6 months base remuneration. He received a further 5 months base remuneration as a dismissal indemnity as provided in the relevant Collective Bargaining Agreement.
- Group Executive – Global Retail, Colin Haggerty ceased performing his role on 19 November 2013. He remained in employment and available to assist the Company through a transition period until 3 January 2014. At this point he received the remainder of his notice in lieu (approximately 7.5 months) and a statutory severance payment of 4 weeks pay.

No executive received payment in excess of 12 months average base salary as benefit of their termination.

4. NON-EXECUTIVE DIRECTOR REMUNERATION

Approved fee pool

Non-Executive Director fees are determined within a maximum Directors' fee pool limit. In 2010, with shareholder approval, this pool fund was increased from $1,200,000 to $1,500,000 to provide flexibility to make required additions to the Board and to revise fees in line with external market rates. The fee pool is inclusive of superannuation.

Approach to setting Non-Executive Director remuneration

Non-Executive Directors receive fixed remuneration in the form of a base fee plus a fee for chairmanship 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.

Effective 2013-14 Non-Executive Director base fees were reduced by 30% to take into account the Company's reduced market capitalisation. For the 2014-15 financial year those fees have been increased by $5,000 per director to recognise the additional travel demands being placed on directors following the recapitalisation of the Company and by a further 2.5% in line with the average increase in executive remuneration levels in the Company.

The 2013-14 annual Non-Executive Directors fees are as follows:

Table I: 2013-14 & 2014-15 Non-Executive Director Remuneration

Non-Executive Director fees		
Fee	**2013-14 Amount**[1]	**2014-15 Amount**[1]
Board Chair fee	227,500	238,313
Director fee	91,000	98,400
Committee Chair fee (Audit and Human Resource and Remuneration) – paid in addition to base fee	25,000	25,000

[1] *Excludes superannuation.*

Table J sets out the Non-Executive Director fees paid in 2013-14 and the year prior. It should be noted that the 30% fee reduction agreed in 2012-13 for the 2013-14 financial year was applied from the first full pay fortnight in July 2013, as a result the base fees are slightly higher than those stated in Table I.

Remuneration Report (continued)

Table J: Fees paid during 2013-14 (and comparatives)

Name		Fees	Non-monetary benefit[1]	Superannuation	Long service leave	Total remuneration
Ian Pollard[2]	**2014**	231,250	4,000	17,775	---	253,025
	2013	216,250	1,351	11,402	---	229,003
Tony Froggatt[3]	**2014**	35,100	4,400	3,700	---	43,200
	2013	130,000	1,995	11,700	---	143,695
Gordon Merchant	**2014**	92,500	4,400	8,556	---	105,456
	2013	130,000	1,999	11,700	---	143,699
Howard Mowlem[4]	**2014**	117,500	4,000	10,869	---	132,369
	2013	103,135	901	9,282	---	113,318
Jason Mozingo[5]	**2014**	59,850	2,667	---	---	62,517
	2013	---	---	---	---	---
Colette Paull[6]	**2014**	57,150	4,400	5,286	---	66,836
	2013	130,000	2,000	11,700	---	143,700
Sally Pitkin	**2014**	117,500	4,400	10,869	---	132,769
	2013	155,000	824	13,950	---	169,774
Jesse Rogers[7]	**2014**	25,928	---	---	---	25,928
	2013	---	---	---	---	---
Keoni Schwartz[8]	**2014**	25,928	---	---	---	25,928
	2013	---	---	---	---	---
Matt Wilson[9]	**2014**	59,850	2,667	---	---	62,517
	2013	---	---	---	---	---
Total	**2014**	822,556	30,934	57,055	---	910,545
	2013	864,385	9,070	69,734	---	943,189

1 *Non-monetary benefit includes a clothing allowance. In 2012-13 this was reported as a wholesale value instead of a retail value (as per 2013-14 amounts).*
2 *Appointed 24 October 2012.*
3 *Resignation effective 4 November 2013.*
4 *Appointed 24 October 2012.*
5 *Appointed 4 November 2013.*
6 *Resignation effective 30 January 2014.*
7 *Appointed 23 July 2013, resignation effective 4 November 2013.*
8 *Appointed 23 July 2013, resignation effective 4 November 2013.*
9 *Appointed 4 November 2013.*

Remuneration Report (continued)

5. OTHER STATUTORY DISCLOSURES

Table K: Short and Long term incentives

	Short Term Incentive[2]		Long Term Incentive (performance shares and conditional rights)				
Name	**2013-14 Paid**	**2013-14 Forfeited**	**Year granted**	**Vested**	**Forfeited**	**Financial years in which may vest**	**Maximum total value of grant yet to vest (as at 30 June 2014)[1]**
Neil Fiske	---	100%	2014	---	---	30 June 2017	969,178
Launa Inman	---	100%	2013	---	100%	30 June 2016	---
Paul Naude	---	100%	2013 2012 2011 2010	--- --- --- ---	100% 100% 100% 100%	30 June 2016 30 June 2015 30 June 2014 30 June 2013	--- --- --- ---
Paul Burdekin	64%	36%	2013 2012	--- 100%	--- ---	30 June 2016 30 June 2014	30,617 ---
Franco Fogliato	---	100%	2013 2012 2011 2010	--- --- --- ---	100% 100% 100% 100%	30 June 2016 30 June 2015 30 June 2014 30 June 2013	--- --- --- ---
Colin Haggerty	---	100%	2013	---	100%	30 June 2016	---
Ed Leasure	---	100%	2014 2013 2012	--- --- 100%	--- --- ---	30 June 2017 30 June 2016 30 June 2014	142,450 13,669 ---
Peter Myers	---	100%	2014	---	---	30 June 2017	186,856
Shannan North	34%	66%	2014 2013 2012 2011 2010	--- --- --- --- ---	--- --- --- 100% 100%	30 June 2017 30 June 2016 30 June 2015 30 June 2014 30 June 2013	154,640 130,278 185,876 --- ---
Jean-Louis Rodrigues	40%	60%	2014 2013 2012	--- --- 100%	--- --- ---	30 June 2017 30 June 2016 30 June 2014	87,725 27,663 ---

1 *The maximum total value of grant yet to vest and yet to be expensed as at 30 June 2014. The figures above are calculated as the fair value at grant date of the performance shares and conditional rights and assuming 100% of the award vests.*

2 *Represents the value of the total short term incentive earned (cash and equity) as a % of the total short term incentive potential (target and stretch).*

Relationship between remuneration and company performance

Company performance has declined over the last five years. The Group's profit from ordinary activities after income tax has decreased from a profit of $152,839,000 in 2009 to a loss of $233,712,000 in 2014 including significant items. Shareholder wealth has also decreased at a compound rate of 43.1% per annum, assuming all dividends had been re-invested back into Billabong International Limited shares on payment date. Total Key Management Personnel compensation has increased over the same period at a compound rate of 2.1% pa, but this includes $3.1 million of termination payments in 2014 and nil termination payments in 2009. As well the 2014 total includes 11 individual executives compared to 7 in 2009. Excluding the termination payments Key Management Personnel compensation has decreased at a compound rate of 6.1% pa over the period.

Remuneration Report (continued)

Equity instrument disclosures relating to KMP

The number of options over ordinary shares in the Company held during the financial year by each Director of Billabong International Limited and other KMP of the Group, including their personally related parties, are set out in Table L.

Table L: 2014 Options Holdings

2014 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Billabong International Limited						
Paul Naude[1]	524,170	---	---	(524,170)	---	---
Other key management personnel of the Group						
Franco Fogliato[2]	314,503	---	---	(314,503)	---	---
Shannan North[3]	314,503	---	---	---	314,503	---

1 *Employment ceased 5 August 2013. Executive Director resignation effective same date.*
2 *Employment ceased 2 November 2013.*
3 *Promoted from General Manager Asia Pacific to Global President, Brand Billabong on 3 March 2014. During the year ended 30 June 2014, these options lapsed as a result of the required hurdles not being met.*

The number of rights over ordinary shares in the Company held during the financial year by each Director of Billabong International Limited and other key management personnel of the Group are set out in Table M.

Table M: 2014 Rights Holdings

2014 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year[12]	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Billabong International Limited[11]						
Neil Fiske[1]	---	2,242,429	---	---	2,242,429	---
Launa Inman[2]	713,401	---	---	(713,401)	---	---
Paul Naude[3]	206,336	---	---	(206,336)	---	---
Other key management personnel of the Group[11]						
Franco Fogliato[4]	328,939	---	(10,528)	(318,411)	---	---
Shannan North[5]	332,814	673,592	(14,403)	(51,400)	940,603	---
Colin Haggerty[6]	191,712	179,426	---	(371,138)	---	---
Peter Myers[7]	---	634,937	---	---	634,937	---
Paul Burdekin[8]	---	---	(9,638)	50,530	40,892	---
Ed Leasure[9]	---	447,584	(5,397)	20,069	462,256	---
Jean-Louis Rodrigues[10]	---	275,636	(10,923)	40,617	305,330	---

1 *Appointed 21 September 2013.*
2 *Employment ceased 2 August 2013. Executive Director resignation effective same date.*
3 *Employment ceased 5 August 2013. Executive Director resignation effective same date.*
4 *Employment ceased 2 November 2013.*
5 *Promoted from General Manager Asia Pacific to Global President, Brand Billabong on 3 March 2014.*
6 *Employment ceased 19 November 2013.*
7 *Was Acting CEO for the period 5 August 2013 to 21 September 2013.*
8 *Promoted to KMP role 3 March 2014.*
9 *Promoted to KMP role 8 October 2013.*
10 *Promoted to KMP role 25 September 2013.*
11 *Includes rights granted under the Executive Long Term Incentive Plan, Executive Performance Share Plan and the Short Term Incentive Deferral.*
12 *Includes forfeitures of awards and awards that were granted in the periods before considered to be in a KMP role.*

Remuneration Report (continued)

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

Table N: 2014 Share holdings

2014 Name	Balance at the start of the year	Received on the exercise of rights holdings	Received on the exercise of options	Other changes during the year[12]	Balance at the end of the year
Directors of Billabong International Limited					
Ian Pollard	7,329	---	---	82,749	90,078
Neil Fiske[1]	---	---	---	2,455,357	2,455,357
Gordon Merchant	70,605,521	---	---	26,477,073	97,082,594
Howard Mowlem	100,000	---	---	37,500	137,500
Sally Pitkin	70,000	---	---	26,250	96,250
Colette Paull[2]	5,521,824	---	---	(5,521,824)	---
Tony Froggatt[3]	7,505	---	---	(7,505)	---
Paul Naude[4]	1,045,988	---	---	(1,045,988)	---
Launa Inman[4]	59,000	---	---	(59,000)	---
Other key management personnel of the Group					
Paul Burdekin[6]	---	9,638	---	42,042	51,680
Ed Leasure[7]	---	5,397	---	101,371	106,768
Shannan North[8]	223,407	14,403	---	(27,916)	209,894
Jean-Louis Rodrigues[9]	---	10,923	---	8,014	18,937[10]
Franco Fogliato[11]	25,191	10,528	---	(35,719)	---

1 *Appointed 21 September 2013. A total of 1,785,714 ordinary shares are to be held in voluntary escrow until commencement of trade on 10 January 2016.*
2 *Resigned effective 30 January 2014 – details of C. Paull's share holdings subsequent to her resignation are not required to be disclosed.*
3 *Resigned effective 4 November 2013 – details of A.G Froggatt's share holdings subsequent to his resignation are not required to be disclosed.*
4 *Resigned effective 5 August 2013 – details of P. Naude's share holdings subsequent to his resignation are not required to be disclosed.*
5 *Resigned effective 2 August 2013 – details of L. Inman's share holdings subsequent to her resignation are not required to be disclosed.*
6 *Appointed Acting General Manager, Billabong Group Asia Pacific on 3 March 2014 and was permanent in this role from 17 July 2014.*
7 *Appointed Acting President Americas on 8 October 2013 and was permanent in this role from 10 December 2013.*
8 *Was General Manager, Billabong Group Asia Pacific until 3 March 2014, and then was appointed Global President, Brand Billabong from 3 March 2014.*
9 *Appointed Acting General Manager, Billabong Group Europe from 25 September 2013 and was permanent in this role from 10 December 2013.*
10 *Including exercised rights holding of 10,923 shares which cannot be disposed of before the end of a 24 month restriction period following the allocation date.*
11 *Employment ceased on 2 November 2013 – details of F. Fogliato's share holdings subsequent to his cessation of employment are not required to be disclosed.*
12 *Includes forfeitures of awards and awards that were granted in the periods before considered to be in a KMP role.*

Other transactions with Directors and other key management personnel

During 2013 a subsidiary of the Company leased a retail store in South Africa from the wife of former Executive Director, Paul Naude. The rental agreement was based on normal commercial terms and conditions.

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

	Number	Grant date	Issue price of shares	Expiry date
Executive Performance and Retention Plan	314,503	31 October 2008	$11.08	31 October 2015
Refinancing proposal- Altamont	42,259,790	16 July 2013	$0.50	16 July 2020
Refinancing proposal- C/O Placement	29,581,852	3 December 2014	$0.50	3 December 2020
Executive Option Plan	1,200,000	31 January 2014	$0.60	31 January 2024
Total	**73,356,145**			

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

Type of right	Balance	Grant date	Performance/service determination date
Performance Shares	51,400	1 September 2011	30 June 2014
Performance Shares	752,661	1 September 2012	1 September 2014
Conditional Rights	456,499	1 September 2012	1 September 2014
Performance Shares	215,611	21 February 2013	30 June 2015
Total	**1,476,171**		

Insurance of officers

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

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

Non-audit services

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

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

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

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

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

	Consolidated	
	2014	2013
	$	$
PricewaterhouseCoopers Australian firm:		
International tax consulting together with separate tax advice on acquisitions and disposals	189,668	999,065
Due diligence services	138,845	528,393
General accounting advice	---	25,700
Network firms of PricewaterhouseCoopers Australia:		
International tax consulting together with separate tax advice on acquisitions and disposals	182,012	137,261
Other services	116,362	112,783
Total remuneration for non-audit services	626,887	1,803,202

Amounts paid or payable by the consolidated entity for audit and non-statutory audit services are disclosed in note 34 to the full financial statements.

In addition to the above, during the prior year PricewaterhouseCoopers Australia and its network firms were engaged by various third parties as part of the acquisition and refinancing proposals. Under the requirements of the agreements with these third parties, these and other professional fees were reimbursed by the Company. Payments or payables to PricewaterhouseCoopers Australia and its network firms under these agreements totalled $911,285 during the 2013 financial year. PricewaterhouseCoopers Australia and its network firms were employed on acquisition and refinancing proposals with other third parties that were not reimbursed by the Group.

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 49.

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

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

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

Ian Pollard
Chairman
Sydney, 28 August 2014

Auditor's Independence Declaration

As lead auditor for the audit of Billabong International Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

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

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

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

Steven Bosiljevac
Partner
PricewaterhouseCoopers

Brisbane
28 August 2014

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The Board of Directors is responsible to shareholders for the performance of the Group and believes that high standards of corporate governance underpin the Company's objective of maximising returns to shareholders. The Board is committed to a high level of governance and endeavours to foster a culture that rewards ethical standards and corporate integrity. As required by the ASX Listing Rules, this statement sets out the extent to which the Company has complied with the ASX Corporate Governance Principles and Recommendations (2nd Edition) (the ASX Recommendations) during the financial year ended 30 June 2014. The Board of Directors considers that the Group's corporate governance practices comply with the ASX Recommendations, except where otherwise explained below.

PRINCIPLE 1: Lay solid foundations for management and oversight

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

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

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

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

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

The Board sets, on an annual basis, financial and non-financial performance hurdles for the CEO and senior executives and performance is assessed against these hurdles. In accordance with this process a performance assessment for senior executives commenced in August 2014 and will be completed in the coming months.

Neil Fiske commenced employment as Chief Executive Officer and Managing Director of the Company on 21 September 2013 following the Company's announcement that it had entered into long term financing arrangements with Centerbridge Partners, L.P. ("Centerbridge") and Oaktree Capital Management, L.P. ("Oaktree").

In order to adequately reflect Centerbridge and Oaktree's investment in the Company, each of Centerbridge and Oaktree was permitted to nominate one representative to the Board of the Company, being Jason Mozingo (for Centerbridge) and Matthew Wilson (for Oaktree). Each of their nominations was accepted by the Board and Mr Mozingo and Mr Wilson were appointed on 4 November 2013. Shareholders approved their re-election at the Company's Annual General Meeting held on 10 December 2013.

PRINCIPLE 2: Structure the Board to add value

The Board is comprised of both Executive and Non-Executive Directors, with a majority of Non-Executive Directors.

The Board seeks to ensure that:

- its membership represents an appropriate balance between Directors with experience and knowledge of the Group and Directors with an external perspective; and
- the size of the Board is conducive to effective discussion and decision-making.

Director Skills
The names, skills and experience of the Directors in office at the date of this Statement, and the period of office of each Director, are set out in the Directors' Report on pages 13-18.

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

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

When determining independence, a director must be a Non-Executive Director, and consideration is given to whether the Non-Executive Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or has previously been employed in an executive capacity by the Company, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years been a principal of a material professional advisor or a material consultant to the Company, or an employee of an advisor or consultant materially associated with the service provided;
- is a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; has a material contractual relationship with the Company other than as a Director; or
- is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's independent exercise of their judgement.

Materiality for these purposes is determined on both quantitative and qualitative bases.

The Board assesses independence each year. To enable this process, the Directors must provide all information that may be relevant to the assessment. At the date of signing the Directors' Report, there is one Executive Director and six Non-Executive Directors. Three of the Non-Executive Directors have no relationships adversely affecting independence and so are deemed independent under the principles set out above.

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

Jason Mozingo is a Senior Managing Director at Centerbridge and was appointed as a Director on 4 November 2013. Centerbridge is a long term financier to the Company and is a substantial shareholder. Accordingly, Mr Mozingo is not considered to be independent of the Company based on the ASX Recommendations.

Matthew Wilson is a Managing Director at Oaktree and was appointed as a Director on 4 November 2013. Oaktree is a long term financier to the Company and is a substantial shareholder. Accordingly, Mr Wilson is not considered to be independent of the Company based on the ASX Recommendations.

Non-Executive Directors Jesse Rogers and Keoni Schwartz, were appointed on 23 July 2013 and resigned on 4 November 2013. Non-Executive Director Ms Colette Paull resigned on 30 January 2014.

Other than Mr. Merchant, Mr. Mozingo and Mr. Wilson, all other current Non-Executive Directors do 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 interests of the Company. Since 30 January 2014, half of the Non-Executive Directors on the Board have been classified as independent.

The Board considers that the current composition of the Board and its Committees is appropriate because:

- the Chair of the Board is independent;
- all Board committees are chaired by an independent Director and since 29 May 2014 there has been a majority of independent Directors on all Board committees;
- in the case of the Audit Committee, for the duration of the year the majority of Directors have been independent; and
- robust procedures are in place to manage any actual or potential conflicts of interest that may arise. These include procedures to ensure that directors are not present and do not vote on matters where that would be prohibited by the *Corporations Act 2001*.

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

Board Commitment
The Board held 34 Board meetings during the year. The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2014, and the number of meetings attended by each Director, is disclosed in the Directors' Report on page 19. During the 2013-14 period a Board meeting was held at the Company's USA office in Irvine, California, including a tour of the facilities and visits to major local customers.

Board Committees
The Board has established a number of Committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current Committees of the Board are the Nominations, Human Resource and Remuneration and Audit Committees. Each is comprised entirely of Non-Executive Directors. Each Committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the Committee is to operate. All of these charters are reviewed on an annual basis and are available on the Company's corporate website. All matters determined by Committees are submitted to the full Board as recommendations for Board decisions.

Nominations Committee
Committee Members (as at 30 June 2014)

Ian Pollard (Chair)
Howard Mowlem
Jason Mozingo
Sally Pitkin
Matthew Wilson

The Nominations Committee consists only of Non-Executive Directors and since 29 May 2014 the Committee has been comprised of a majority of independent Directors. Prior to 29 May 2014 the Nominations Committee had an equal number of independent and non-independent Directors. The Chair of the Committee is an independent Non-Executive Director. Throughout the financial year ended 30 June 2014 there have been at least 3 members on the Committee.

The Nominations Committee met once during the year. Appointment of new Directors to the Board during the year was determined by the Board of Directors as part of decisions relating to the refinancing of the Company. Details of these Directors' attendance at Committee meetings are set out in the Directors' Report on page 19.

The main functions of the Committee are to:

- assess periodically the skill set required to discharge competently the Board's duties, having regard to the strategic direction of the Group, and assess the skills experience, independence and knowledge currently represented on the Board;
- regularly review and make recommendations to the Board regarding the structure, size and composition of the Board (including the balance of skills, knowledge, expertise and diversity of gender, age, experience and relationships of the Board) and keep under review the leadership needs of the Company, both executive and non-executive;
- identify suitable candidates (executive and non-executive) to fill Board vacancies taking into account the skills, experience and diversity required on the Board, and the attributes required of Directors;
- undertake appropriate checks before appointing new Directors or putting candidates for election or re-election to shareholders;
- ensure that, on appointment, all Directors receive an induction and a formal letter of appointment, setting out the responsibilities envisaged in the appointment including any responsibilities with respect to Board Committees;
- provide appropriate training and development opportunities for Directors;
- oversee appropriate Board, CEO and CEO direct reports succession planning; and
- establish a process for the review of the performance of individual Directors and the Board as a whole, in particular prior to the endorsement of retiring Directors seeking re-election.

When a new Director is to be appointed, the Committee prepares a board skills matrix to review the range of skills, experience and expertise on the Board and to identify its needs. Where appropriate, advice is sought from independent search consultants to assist in the preparation of a short-list of candidates.

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

Directors are required to confirm that they have sufficient time to fulfil their anticipated responsibilities. The Nominations Committee Charter is available on the Company's corporate website.

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

Tenure of Office
Non-Executive Directors have open-ended contracts and tenure is subject to the individual performance of the Director and rotational requirements for re-election by shareholders. The Company's Constitution specifies that all Non-Executive Directors must retire from office no later than the third Annual General Meeting following their last election. Where eligible, a Director may stand for re-election.

Board Performance
During the year the Chair undertook a review of Board, Committee and Director performances (including the performance of Chairs of the Board and its Committees) through one-on-one discussions with all Directors and by extending an invitation to all the senior executives to submit comments.

PRINCIPLE 3: Promote ethical and responsible decision-making

Group Global Code of Conduct
The Company has a Group Global Code of Conduct, which is available in nine languages and draws together all of the Company's practices and policies. The Code reflects the Company's values of integrity, honesty, trust, teamwork, respect and a desire for excellence in everything the Company does. It reinforces the need for Directors, employees, consultants and all other representatives of the Company to always act in good faith, in the Company's best interests and in accordance with all applicable policies, procedures, laws and regulations relevant to the regions in which the Company operates.

The Group Global Code of Conduct encourages employees to report (on a confidential basis if desired) conduct that they reasonably believe to be corrupt, illegal or unethical, using the Company's whistleblower program. The program is available to all Company employees, contractors and consultants and is designed to protect individuals who, in good faith, report such conduct, so that they have no fear of reprisal, dismissal or discriminatory treatment.

The Group Global Code of Conduct is communicated to employees in each of the regions in which the Company operates. A copy of the Group Global Code of Conduct is available on the Company's corporate website.

Securities Trading Policy
The Company has a detailed Securities Trading Policy, which regulates dealings by Directors, senior managers and certain employees in shares, options and other securities issued in the Company. The policy prohibits trading from the close of trading on 30 June until after two clear trading days have elapsed from the date upon which the Company gives to the ASX its full year result and from the close of trading on 31 December until after two clear days have elapsed from the date upon which the Company gives to the ASX its half year result.

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

Workplace Equity and Diversity Policy
The Company values diversity and recognises the benefits of a diverse workforce. A copy of the Company's Workplace Equity and Diversity Policy can be found on the Billabong corporate website. The policy is available in English, French, Japanese, Portuguese, Spanish, Bahasa Indonesian and Simplified Chinese to ensure it is accessible to all staff.

The percentage of female employees across the organisation increased from 54% as at 30 June 2013 to 55% as at 30 June 2014.

In 2010-11 the Board established three-year objectives in relation to gender diversity. These objectives, a gender pay gap analysis, the Workplace Equity and Diversity Policy and progress towards the objectives were reviewed by the Board in July and August 2014.

As per the table below, the first objective, an increase to the number of women on the Board has not been achieved. During the 2013-14 financial year the composition of the Board changed as a direct result of the recapitalisation of the Company (Jason Mozingo and Matt Wilson were appointed Non-Executive Directors as representatives of Centerbridge Partners, L.P. and Oaktree Capital Management, L.P and Tony Frogatt and Colette Paul resigned). Given there are no further planned changes to the composition of the Board, it was determined that this objective should be amended to maintain the current number of women on the Board.

During the year a number of females were promoted and appointed to senior executive level positions and although progress was made towards the second objective; 35% of women in senior executive positions, this objective has not been met. Therefore, it was determined that this objective should remain in place for 2014-15. To assist in achieving this objective in 2013-14 a number of development programs were implemented across the world with the number of females participating in these programs increasing. Further, as per prior years, the number of females taking up flexible working arrangements has continued to increase.

The final objective; an annual review of gender pay equity was undertaken in July 2014. Whilst some actions were taken during the 2013-14 financial year which assisted in improving gender pay equity further improvements will be made during 2014-15 as a consequence of a global compensation review currently underway. The Board recognises the importance of gender pay equity and has made a commitment to ensure women are paid at the same level as men for like positions.

Progress against objectives set in 2010-11

Objective	Actual –% of women 30 June 2012	Actual –% of women 30 June 2013	Actual –% of women 30 June 2014
Women on the Board^ - 40%	33%	33%	17%
Women in Senior Executive positions* - 35%	24%	29%	31%
Annual review of gender pay equity	complete	complete	complete

^'Board' includes Non-Executive Directors only
**Senior Executives include the CEO and the next two levels of management*

Amended objectives for 2014-15 onwards

1. Women on the Board – 17%
2. Women in Senior Executive positions – 35%
3. Annual review of gender pay equity.

PRINCIPLE 4: Safeguard integrity in financial reporting

Audit Committee
Committee Members as at 30 June 2014

Howard Mowlem (Chair)
Sally Pitkin
Jason Mozingo
Ian Pollard
Matthew Wilson

The Board is committed to implementing and maintaining strong corporate governance practices.

As at the date of signing the Directors' Report and throughout the financial year ended 30 June 2014, all members of the Audit Committee are Non-Executive Directors and there is a majority of independent Directors. Throughout the financial year ended 30 June 2014 there have been at least 3 members on the Committee. The Chair of the Committee is an independent Non-Executive Director. The Committee may extend an invitation to any person to attend all or part of any meeting of the Committee which it considers appropriate.

All members of the Audit Committee are financially literate. The Chair of the Committee, Howard Mowlem, holds a Bachelor of Economics (Honours), Master of Business Administration, Securities Industry Diploma and is a Fellow of the Australian society of CPA's, and has held various senior finance roles over a period of 25 years.

The Audit Committee met three times during the year. Details of these Directors' attendance at Committee meetings are set out in the Directors' Report on page 19.

The main functions of the Committee are to:

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

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

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

In fulfilling its responsibilities, the Audit Committee:

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

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

External Auditors
The external auditor (PricewaterhouseCoopers) has declared its independence to the Board through its representations to the Committee and provision of its Statement of Independence to the Board, stating that it has maintained its independence in accordance with the provisions of APES 110 *Code of Ethics for Professional Accountants* and the applicable provisions of the *Corporations Act 2001*. It is PricewaterhouseCoopers' policy to rotate audit engagement partners on listed companies at least every five years, and in accordance with that policy, a new audit engagement partner was appointed during the financial year ended 30 June 2012.

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

PRINCIPLES 5 and 6: Make timely and balanced disclosure and respect the rights of shareholders

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

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

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

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

The Company's corporate website maintains, at a minimum, information about the last five years' press releases or announcements. Where possible the Company arranges for advance notification of significant group briefings (including, but not limited to, results announcements) and makes them widely accessible, including through the use of webcasting.

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

PRINCIPLE 7: Recognise and manage risk

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

The Company has a Risk Management Policy which provides risk management processes based around the following activities:

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

The Board, through the Audit Committee, is responsible for reviewing the Risk Management Policy and framework and satisfying itself that management has in place appropriate systems for managing risk and maintaining internal controls.

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

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

Certification of risk management controls
The CEO and CFO state in writing to the Board each reporting period that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects. The CEO and CFO have provided this statement in respect of the 2013-14 financial year.

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

Corporate Reporting
In complying with recommendation 7.3, the CEO and CFO have made the following certifications to the Board:

- that the Company's financial reports have been properly maintained, are complete and present, a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards; and
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is efficient and effective in all material aspects in relation to financial reporting risks.

PRINCIPLE 8: Remunerate fairly and responsibly

Human Resource and Remuneration Committee
Committee Members as at 30 June 2014

Sally Pitkin (Chair)
Howard Mowlem
Jason Mozingo
Ian Pollard
Matthew Wilson

The Human Resource and Remuneration Committee consists only of Non-Executive Directors and, since 29 May 2014, the Committee has been comprised of a majority of independent members. The Chair of the Committee is an independent Non-Executive Director. Throughout the financial year ended 30 June 2014 there have been at least 3 members on the Committee.

The Committee may extend an invitation to any person to attend all or part of any meeting of the Committee which it considers appropriate but no member of management may be present when the Committee considers that person's remuneration.

The Human Resource and Remuneration Committee met four times during the year. Details of these Directors' attendance at Committee meetings are set out in the Directors' Report on page 19.

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

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

in particular to:

- review the remuneration for each Executive Director (including base pay, incentive payments, equity awards and retirement or severance benefits), having regard to the Executive remuneration policy and whether in respect of any elements of remuneration any shareholder approvals are required;
- annually appraise the performance of the CEO and provide appropriate Executive development programs;
- review the remuneration (including incentive awards, equity awards and service employment contracts) for the CEO and senior management, to ensure they are consistent with the Executive remuneration policy;
- review Non-Executive Director remuneration with the assistance of external consultants as appropriate;
- review all equity based plans and all cash-based Executive incentive plans;
- review whether there is any gender or other inappropriate bias in remuneration for Executive Directors, CEO and CEO direct reports;
- engage with and review feedback from shareholders and advisory groups regarding Executive remuneration and agree any required actions;
- review the appropriateness of management succession plans;
- review annually the remuneration trends (including major changes in employee benefit structures, philosophies and practices) across the Group in its various regions;
- review policies, reports and performance relating to diversity, conduct and any other Group human resource matters; and
- ensure that the Board is aware of all relevant legal requirements regarding disclosure of remuneration.

The Committee reviews and sets key performance indicators (KPIs) relating to financial and non-financial targets for senior management at the commencement of each financial year. These KPIs are evaluated at the end of each reporting period and impact on the discretionary element of the Executive's remuneration.

The Human Resource and Remuneration Committee Charter is available on the Company's corporate website.

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

Structure of Remuneration
Details of the nature and amount of each element of the remuneration for Executive Directors, Non-Executive Directors and key management personnel of the Company, are set out in the 'Remuneration Report' section of the Directors' Report from pages 20-46.

There are no retirement benefits, other than statutory superannuation, for Non-Executive Directors of the Company.

In accordance with Group policy, participants in equity-based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements. Details of this policy can be found in the Securities Trading Policy on the Company's website.

Billabong International Limited

ABN 17 084 923 946

Contents

: : FINANCIAL REPORT 30 JUNE 2014

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 – 12, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 28 August 2014. 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.

Consolidated income statement

For the year ended 30 June 2014 : :

	Notes	2014 $'000	2013 $'000
Revenue from continuing operations	5	1,125,454	1,107,492
Cost of goods sold	7	(555,758)	(541,466)
Other income	6	10,790	15,097
Selling, general and administrative expenses	7	(466,634)	(457,098)
Other expenses	7	(166,722)	(748,385)
Finance costs	7	(82,366)	(24,532)
Share of net loss after-tax of associate accounted for using the equity method	16	---	(4,979)
Loss before income tax		(135,236)	(653,871)
Income tax expense	9	(74,576)	(29,861)
Loss from continuing operations		(209,812)	(683,732)
Loss from discontinued operations after income tax	10	(30,121)	(179,270)
Loss for the year		(239,933)	(863,002)
Loss attributable to non-controlling interests		6,221	3,461
Loss for the year attributable to the members of Billabong International Limited		(233,712)	(859,541)
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company		Cents	Cents
Basic earnings per share	44	(24.9)	(104.8)
Diluted earnings per share	44	(24.9)	(104.8)
Earnings per share for loss attributable to the ordinary equity holders of the Company			
Basic earnings per share	44	(28.6)	(132.4)
Diluted earnings per share	44	(28.6)	(132.4)

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

Consolidated statement of comprehensive income

For the year ended 30 June 2014 : :

	Notes	**2014 $'000**	2013 $'000
Loss for the year		(239,933)	(863,002)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges, net of tax	30(b)	(3,175)	1,003
Exchange differences on translation of foreign operations	30(b)	9,488	(5,023)
Net investment hedge, net of tax	30(b)	(10,751)	22,888
Other comprehensive (expense)/income for the year, net of tax		(4,438)	18,868
Total comprehensive expense for the year		(244,371)	(844,134)
Loss attributable to non-controlling interests		6,221	3,461
Total comprehensive expense for the year attributable to members of Billabong International Limited		(238,150)	(840,673)
Total comprehensive expense for the year attributable to members of Billabong International Limited arises from:			
Continuing operations		(208,029)	(661,403)
Discontinued operations		(30,121)	(179,270)
		(238,150)	(840,673)

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

Consolidated balance sheet

As at 30 June 2014 : :

	Notes	2014 $'000	Restated 2013 $'000	Restated 2012 $'000
ASSETS				
Current assets				
Cash and cash equivalents	11	145,070	113,837	317,263
Trade and other receivables	12	153,850	204,429	245,035
Inventories	13	180,222	266,806	293,201
Current tax receivables		3,202	12,391	18,622
Other	14	13,457	24,905	24,800
Total current assets		495,801	622,368	898,921
Non-current assets				
Receivables	15	10,275	8,522	11,560
Investment accounted for using the equity method	16	---	---	134,579
Property, plant and equipment	17	94,305	118,551	160,153
Intangible assets	18	143,664	212,686	795,900
Deferred tax assets	3, 19	840	56,297	71,913
Other	20	6,981	868	7,658
Total non-current assets		256,065	396,924	1,181,763
Total assets		751,866	1,019,292	2,080,684
LIABILITIES				
Current liabilities				
Trade and other payables	21	185,687	240,227	320,225
Borrowings	22	7,358	314,556	229,088
Current tax liabilities	23	4,179	1,740	2,953
Provisions	24	28,447	55,972	59,177
Total current liabilities		225,671	612,495	611,443
Non-current liabilities				
Borrowings	25	212,033	5,916	249,069
Deferred tax liabilities	3, 26	---	---	---
Provisions and payables	27	31,570	41,094	80,346
Deferred payments	28	23,556	47,720	67,565
Total non-current liabilities		267,159	94,730	396,980
Total liabilities		492,830	707,225	1,008,423
Net assets		259,036	312,067	1,072,261
EQUITY				
Contributed equity	29	1,094,274	910,836	843,268
Treasury shares	30(a)	(22,508)	(24,861)	(27,935)
Option reserve	30(b)	10,760	5,211	9,375
Other reserves	30(b)	(111,215)	(106,777)	(143,107)
Retained (losses)/profits	3, 30(c)	(701,287)	(467,575)	391,966
Capital and reserves attributable to members of Billabong International Limited		270,024	316,834	1,073,567
Non-controlling interests		(10,988)	(4,767)	(1,306)
Total equity		259,036	312,067	1,072,261

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 2014 : :

	Notes	Attributable to members of Billabong International Limited					
		Contri-buted equity $'000	Reserves $'000	Retained earnings $'000	Total $'000	Non con-trolling interests $'000	Total equity $'000
Balance at 1 July 2012		843,268	(161,667)	346,970	1,028,571	(1,306)	1,027,265
Adjustment on correction of error	3	---	---	44,996	44,996	---	44,996
Restated total equity at the beginning of the financial year		843,268	(161,667)	391,966	1,073,567	(1,306)	1,072,261
Loss for the year		---	---	(859,541)	(859,541)	(3,461)	(863,002)
Other comprehensive income		---	18,868	---	18,868	---	18,868
Total comprehensive expense for the year		---	18,868	(859,541)	(840,673)	(3,461)	(844,134)
Transactions with equity holders in their capacity as equity holders:							
Rights issue, net of transaction costs	29(b)	67,568	---	---	67,568	---	67,568
Treasury shares purchased by employee share plan trusts	30(a)	---	(2,737)	---	(2,737)	---	(2,737)
Option reserve in respect of employee share plan	30(b)	---	1,647	---	1,647	---	1,647
Redemption option for non-controlling derivative	30(b)	---	17,462	---	17,462	---	17,462
		67,568	16,372	---	83,940	---	83,940
Restated balance at 30 June 2013		910,836	(126,427)	(467,575)	316,834	(4,767)	312,067
Loss for the year		---	---	(233,712)	(233,712)	(6,221)	(239,933)
Other comprehensive expense		---	(4,438)	---	(4,438)	---	(4,438)
Total comprehensive expense for the year		---	(4,438)	(233,712)	(238,150)	(6,221)	(244,371)
Transactions with equity holders in their capacity as equity holders:							
CEO Sign-on bonus	29(g)	500	---	---	500	---	500
C/O Placement	29(h)	135,000	---	---	135,000	---	135,000
Rights issue, net of transaction costs	29(i)	47,938	---	---	47,938	---	47,938
Option reserve in respect of employee share plan	30(b)	---	(276)	---	(276)	---	(276)
Option reserve in respect of employee sign-on issues	30(b)	---	339	---	339	---	339
Fair value of options in respect of recapitalisation option issues	30(b)	---	7,839	---	7,839	---	7,839
		183,438	7,902	---	191,340	---	191,340
Balance at 30 June 2014		1,094,274	(122,963)	(701,287)	270,024	(10,988)	259,036

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 2014 : :

	Notes	**2014 $'000**	2013 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,356,946	1,477,069
Payments to suppliers and employees (inclusive of GST)		(1,334,426)	(1,450,571)
		22,520	26,498
Interest received		1,183	1,204
Other revenue		4,244	4,040
Finance costs		(92,252)	(20,453)
Income taxes (paid)/received		(12,314)	646
Net cash (outflow)/inflow from operating activities	42	(76,619)	11,935
Cash flows from investing activities			
Payments for purchase of subsidiaries and businesses, net of cash acquired	38	(41,588)	(69,704)
Payments for property, plant and equipment		(15,855)	(23,193)
Payments for finite life intangible assets		(9,012)	(16,942)
Proceeds from sale of business, net of cash divested and transaction costs	10	83,878	---
Proceeds from sale of property, plant and equipment		168	1,145
Net cash inflow/(outflow) from investing activities		17,591	(108,694)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities	29	182,088	66,811
Payments for treasury shares held by employee share plan trusts	30(a)	---	(2,737)
Proceeds from borrowings		873,886	707,795
Repayment of borrowings		(962,012)	(884,228)
Net cash inflow/(outflow) from financing activities		93,962	(112,359)
Net increase/(decrease) in cash and cash equivalents		34,934	(209,118)
Cash and cash equivalents at the beginning of the year		113,324	315,664
Effects of exchange rate changes on cash and cash equivalents		(3,188)	6,778
Cash and cash equivalents at the end of the year	11	145,070	113,324
Financing arrangements	25		
Non-cash investing and financing activities	43		

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

Contents of the notes to the consolidated financial statements

Note 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. 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 to early adopt the following accounting standard:

AASB 2013-3 Amendments to AASB 136 Recoverable Amount Disclosures for Non-Financial Assets (effective reporting periods beginning 1 January 2014)

The AASB has made small changes to some of the disclosures that are required under AASB 136 Impairment of Assets. This has resulted in additional disclosures as the Group has recognised an impairment loss during the period. This early adoption has not affected any of the amounts recognised in the financial statements.

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 3.

(b) Principles of consolidation

(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Billabong International Limited (the Company or parent entity) as at 30 June 2014 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.

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

Note 1. Summary of significant accounting policies (continued)

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

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

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

(ii) Employee Share Trust

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

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

(iii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes Goodwill identified on acquisition (refer to note 16).

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transaction between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iv) Changes in ownership interests

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

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

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

Note 1. Summary of significant accounting policies (continued)

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

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

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

(e) Revenue recognition

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

(i) Sale of goods

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

Note 1. Summary of significant accounting policies (continued)

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

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

(iv) *Agent commissions*
Revenue earned from 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.

(f) Income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the 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.

(g) Leases

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

Note 1. Summary of significant accounting policies (continued)

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 36). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

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

(h) Business combinations

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

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

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

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

(i) Impairment of assets

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

No amortisation is provided against the carrying value of purchased brands on the basis that these assets are considered to have an indefinite useful life.

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

Note 1. Summary of significant accounting policies (continued)

(j) Cash and cash equivalents

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

(k) Trade receivables

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

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

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

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

(l) Inventories

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

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

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

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

(m) 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.

Note 1. Summary of significant accounting policies (continued)

(n) Investments and other financial assets

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

(i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 12) and receivables (note 15) in the balance sheet.

Recognition and derecognition
Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

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

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

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

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

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

Assets carried at amortised cost
For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Note 1. Summary of significant accounting policies (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Impairment testing of trade receivables is described in note 1(k).

(o) Derivatives and hedging activities

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

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

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 32. Movements in the hedging reserve in shareholders' equity are shown in note 30(b). The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Cash flow hedge

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

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). 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.

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.

(ii) Net investment hedges

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

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

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

Note 1. Summary of significant accounting policies (continued)

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

(p) Property, plant and equipment

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

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

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

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

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

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

(q) Intangible assets

(i) *Goodwill*
Goodwill is measured as described in note 1(h). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment charges. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

(ii) *Brands*
Expenditure incurred in developing or enhancing brands is expensed as incurred. Brands are shown at historical cost.

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

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

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

Note 1. Summary of significant accounting policies (continued)

(r) 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.

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities 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 expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

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

(t) Borrowing costs

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

(u) 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 more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

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

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

(v) Employee benefits

(i) Short-term obligations

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

Note 1. Summary of significant accounting policies (continued)

(ii) *Other long-term employee benefit obligations*

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

(iii) *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.

(iv) *Profit-sharing and bonus plans*

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

(w) Contributed equity

Ordinary shares are classified as equity.

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

(x) Dividends

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

(y) Earnings per share

(i) *Basic earnings per share*

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

(ii) *Diluted earnings per share*

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

Note 1. Summary of significant accounting policies (continued)

(z) Employee and executive share plans

Equity-based compensation benefits are provided to employees via the Billabong Executive Long Term Incentive Plan, Billabong Executive Performance Share Plan, the Short Term Incentive deferral scheme and the Executive Performance and Retention Plan.

Billabong Executive Long Term Incentive Plan
Share-based compensation benefits are provided to the executive team via the Billabong Executive Long Term Incentive Plan. Information relating to this Plan is set out in note 45.

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

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

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

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

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

Billabong Executive Performance Share Plan
Share-based compensation benefits are provided to the executive team via the Billabong Executive Performance Share Plan. Information relating to this Plan is set out in note 45.

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

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

Note 1. Summary of significant accounting policies (continued)

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

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

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

Short Term Incentive deferral
The fair value of deferred shares granted to employees for nil consideration under the short-term incentive scheme is recognised as an expense over the relevant service period, being the year to which the bonus relates and the vesting period of the shares. The fair value is measured at the grant date of the shares and is recognised in equity in the option reserve. The number of shares expected to vest is estimated based on the non-market vesting conditions. The estimates are revised at each reporting date and adjustments are recognised in profit or loss and the option reserve.

The deferred shares are acquired by the Billabong Executive Performance Share Plan – Australia trust (for Australian employees) and the Billabong Executive Performance Share Plan trust (for non-Australian employees) respectively on market at the grant date and are held as treasury shares until such time as they are vested, see note 1(b)(ii).

Billabong Executive Performance and Retention Plan
Share-based compensation benefits are also provided to the executive team via the Billabong Executive Performance and Retention Plan. Information relating to this Plan is set out in note 45.

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

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

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

The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

(aa) Financial guarantee contracts

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

Note 1. Summary of significant accounting policies (continued)

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

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

(bb) Parent entity financial information

The financial information for the parent entity, Billabong International Limited, disclosed in note 46 has been prepared on the same basis as the consolidated financial report, except as set out below.

Investments in subsidiaries
Investments in subsidiaries are accounted for at cost, tested for impairment on an annual basis, in the financial report of Billabong International Limited. Dividends received from subsidiaries are recognised in the parent entity's income statement when its right to receive the dividend is established.

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

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

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

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

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

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

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

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

(cc) 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.

Note 1. Summary of significant accounting policies (continued)

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.

(dd) Significant items

The Group results for the period and the prior corresponding period (pcp) include certain significant items including but not limited to impairment charges, costs associated with the various control and/or refinancing proposals announced over the last two years and the restructuring of the Group's operations pursuant to the various strategic reform programs announced in August 2012 and December 2013. Refer to note 8 of the financial statements for more information in relation to these items.

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

(i) The item is non-recurring in nature;

(ii) The item is an accounting expense which is not reflective of the trading during the financial year (eg restatement of derivative liabilities or contingent consideration, reclassification of FCTR 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 charge;

(iv) The item is a gain / loss / fair value adjustment / costs 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 new strategic agenda announced in December 2013 following the appointment of new CEO, board changes to the introduction of two new major shareholders. This restructuring is resulting in a significant change to management, business mix and process. 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 strategic decisions to write down assets which are material and unusual in nature.

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

(ee) Rounding of amounts

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

(ff) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 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:

(i) *AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* and *AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transaction Disclosures (effective from 1 January 2018)*

In AASB 9, the AASB added requirements for the classification and measurement of financial liabilities that are generally consistent with the equivalent requirements in AASB 139 except in respect of the fair value option; and certain derivatives linked to unquoted equity instruments. The AASB also added the requirements in AASB 139 in relation to the derecognition of financial assets and financial liabilities to AASB9. AASB9 retained but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in AASB 139 on hedge accounting continues to apply as long as hedge accounting provisions in AASB 2013-9 are not applied. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2018 and is not expected to have a significant impact on the financial statements.

Note 1. Summary of significant accounting policies (continued)

(ii) AASB 2014-1 Amendments to AASB: Part A: Annual Improvements 2010-2012 and 2011-2013 cycles.

Amendments to existing accounting standards, particularly in relation to clarifying share-based payments vesting and non-vesting conditions, operating segment asset disclosures, clarification of current/non-current classification of debt , clarification of KMP when and entity has a management entity/responsible entity (such as a trustee), the meaning of effective IFRS, exemptions for joint ventures from business combination requirements, clarification of the scope exception for measuring the fair value of financial assets and liabilities on a portfolio basis, and clarifying the interrelationship between business combinations and investment property when classifying property as investment property or owner-occupied. The standard will become mandatory for the Group's 30 June 2015 financial statements and is not expected to have a significant impact on the financial statements.

Note 2. Financial risk management

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

(a) Market risk

(i) Foreign exchange risk

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

Foreign currency transaction risk arises when assets and liabilities, and forecasted purchases and sales are denominated in a currency other than the functional currency of the respective entities. As sales are mainly denominated in the respective local currency which is the functional currency, the major transactional exposure is in relation to inventory purchases, 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.

Forward contracts are used to manage foreign exchange risk. The Group's Risk Management Policy is for each region to hedge greater than 80% of forecast foreign denominated inventory purchases for the upcoming season. Further hedges can be executed following receipt of customer orders. All hedges of projected purchases qualify as "highly probable" forecast transactions for hedge accounting purposes. The Group has, as outlined in note 32, forward exchange contracts designated as cash flow hedges.

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

	Notes	**2014 $'000**	2013 $'000
Australian Dollars			
Cash and cash equivalents	11	40,745	9,140
Trade and other receivables	12, 15	21,460	21,381
Borrowings	22, 25	(550)	(56,765)
Trade and other payables	21	(44,728)	(54,779)
		16,927	(81,023)
United States Dollars			
Cash and cash equivalents	11	64,657	71,865
Trade and other receivables	12, 15	59,982	76,967
Borrowings	22, 25	(208,410)	(155,815)
Trade and other payables	21	(71,893)	(101,203)
		(155,664)	(108,186)
European Euros			
Cash and cash equivalents	11	13,259	10,008
Trade and other receivables	12, 15	32,901	42,204
Borrowings	22, 25	(5,244)	(37,497)
Trade and other payables	21	(33,011)	(29,134)
		7,905	(14,419)
Other			
Cash and cash equivalents	11	26,409	22,824
Trade and other receivables	12, 15	49,782	72,399
Borrowings	22, 25	(5,187)	(70,395)
Trade and other payables	21	(36,055)	(55,111)
		34,949	(30,283)

Note 2. Financial risk management (continued)

(a) Market risk (continued)

Sensitivity analysis
The majority of the carrying amounts of the Group's financial assets and liabilities are denominated in the functional currency of the relevant subsidiary and thus there is no foreign exchange exposure. The majority of foreign exchange exposure as at 30 June 2014 relates to intra-group monetary assets or liabilities, and whilst these are eliminated on group consolidation, there is an exposure at balance date which is recognised in the consolidated income statement as unrealised foreign exchange gains or losses. This is because the monetary item represents a commitment to convert one currency into another and exposes the Group to a gain or loss through currency fluctuations.

At 30 June 2014 had the Australian Dollar as at 30 June 2014 weakened / strengthened by 10% against the United States Dollar with all other variables held constant, post-tax profit for the year would have been $1.6 million lower / $1.9 million higher (2013: $0.2 million lower / $0.2 million higher), mainly as a result of intra-group monetary assets or liabilities as at 30 June 2014. Profit is more sensitive to movements in the Australian Dollar / United States Dollar in 2014 than 2013 because of changes in United States Dollar denominated payables as at 30 June 2014 compared with as at 30 June 2013. Equity (excluding the effect to the Foreign Currency Translation Reserve of translating the United States of America operations' net assets/equity to Australian Dollars) would have been $1.2 million higher / $0.3 million lower (2013: $1.3 million higher / $1.5 million lower). The Group's exposure to other foreign exchange movements as at 30 June 2014 is not material.

(ii) Cash flow interest rate risk
Other than cash deposits at call, the Group has no significant interest-bearing assets and therefore the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

As at the reporting date, the Group had the following variable rate borrowings outstanding:

	2014 $'000	2013 $'000
Bank loans, syndicated facility, drawdown facility and cash advance facilities	5,187	312,974
Net exposure to interest rate risk	5,187	312,974

An analysis by maturities is provided in (c) below and a summary of the terms and conditions is in note 25.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

Group sensitivity analysis
At 30 June 2014 if interest rates had changed by - / + 50 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been $0.1 million lower / higher (2013: $1.1 million lower / higher). Equity would have been $0.1 million lower / higher (2013: $1.1 million lower / higher).

(b) Credit risk

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

The Group has no significant concentrations of credit risk.

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

Note 2. Financial risk management (continued)

(b) Credit risk (continued)

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their financial position, past experience and other factors. Credit limits are set for each individual customer in accordance with parameters set by the Board. These credit limits are regularly monitored. In addition, receivable balances are monitored on an ongoing basis. Sales to retail customers are settled in cash or using major credit cards, mitigating credit risk.

Credit risk further arises in relation to financial guarantees given to certain parties. Such guarantees are only provided in exceptional circumstances and are subject to specific Board approval. Refer to note 46.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. The vast majority of cash at bank and short-term bank deposits are held with banks with at least a credit rating of 'A'. Derivative counterparties have a credit rating of at least 'A'. The vast majority of trade receivables are with existing customers (who have been customers for at least six months) with no defaults in the past (for further information about impaired trade receivables and past due but not impaired receivables refer to note 12).

(c) Liquidity risk

Due to the financial liabilities within the Group, the Group is exposed to liquidity risk, being the risk of encountering difficulties in meeting such obligations. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to closeout market positions. At the end of the reporting period the Group held deposits at call of $32.8 million (2013: $32.9 million). Due to the dynamic nature of the underlying businesses, the Group aims at maintaining flexibility in funding by keeping committed credit lines available. Refer to note 25 for information in regards to the Group's financing arrangements. Refer to note 29(l) for information in regards to the Group's capital management strategy.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising the undrawn borrowing facilities) and cash and cash equivalents (note 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.

Due to the refinancing procedures undertaken in this reporting period, the Group has secured long term financing with a single financial covenant that will be first tested on 31 December 2014. This has reduced the Group's exposure to liquidity risk and the senior secured term loan funding has been classified as non-current on this basis.

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

Note 2. Financial risk management (continued)

(c) Liquidity risk (continued)

2014	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount (assets) / liabilities
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Non-interest bearing trade and other payables	183,857	---	---	---	---	183,857	183,857
Non-current deferred payments	---	---	23,496	---	---	23,496	23,556
Fixed rate debt	14,903	14,072	28,497	60,234	244,400	362,106	214,204
Variable rate debt	5,187	---	---	---	---	5,187	5,187
Net variable rate liabilities	5,187	---	---	---	---	5,187	5,187
Less: Cash (i)	(145,070)	---	---	---	---	(145,070)	(145,070)
Net variable rate liquidity position	(139,883)	---	---	---	---	(139,883)	(139,883)
Net settled derivatives (put and call options)	---	---	3,376	6,849	---	10,225	9,054
Gross settled derivatives (forward exchange contracts)							
- (inflow)	(64,626)	(22,368)	---	---	---	(86,994)	---
- outflow	66,247	22,493	---	---	---	88,740	1,739
	1,621	125	---	---	---	1,746	1,739

Refer to note 25 in regards to the Group's financing facilities as at 30 June 2014.

2013	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount (assets) / liabilities
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Non-interest bearing trade and other payables	239,924	---	---	---	---	239,924	239,924
Non-current deferred payments	---	---	9,000	40,874	---	49,874	47,720
Fixed rate debt	856	852	1,704	4,685	---	8,097	7,498
Variable rate debt	317,677	---	---	---	---	317,677	312,974
Net variable rate liabilities	317,677	---	---	---	---	317,677	312,974
Less: Cash (i)	(113,837)	---	---	---	---	(113,837)	(113,837)
Net variable rate liquidity position	203,840	---	---	---	---	203,840	199,137
Net settled derivatives (put and call options)	---	---	---	15,324	---	15,324	12,922
Gross settled derivatives (forward exchange contracts)							
- (inflow)	(52,109)	(8,038)	---	---	---	(60,147)	(2,882)
- outflow	49,603	7,921	---	---	---	57,524	---
	(2,506)	(117)	---	---	---	(2,623)	(2,882)

Note 2. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 30 June 2013 the deteriorating financial performance would have required waivers to prevent the Group breaching financial covenant thresholds contained in the agreements for the Syndicated Revolving Multi-Currency Facility and as a result the Group classified $283.3 million of borrowings as current liabilities as at 30 June 2013 notwithstanding that at balance date the maturity date of the facility was 28 July 2014.

Refer to note 25 for further information in regards to the Group's refinancing.

(i) Cash

Cash is considered in managing the Group's exposure to liquidity and interest rate risks. As at 30 June 2014 the Group held a significant cash balance of $145.1 million (2013: $113.8 million). In the prior year, the Group had a cash pooling arrangement wherein a portion of the Group's cash was notionally offset on a daily basis against the outstanding debt drawn under the drawdown facility for the purposes of calculating interest expense payable. At 30 June 2013 the amount of cash included in the notional pooling $21.3 million.

(d) Fair value measurements

(i) Fair value hierarchy

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

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 accounting standards.

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2014 and 30 June 2013.

At 30 June 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Financial assets				
Forward exchange contracts – cash flow hedges	---	91	---	91
Total financial assets	---	91	---	91
Financial Liabilities				
Forward exchange contracts – cash flow hedges	---	1,830	---	1,830
Contingent consideration	---	---	15,709	15,709
Derivative liability	---	---	9,054	9,054
Total financial liabilities	---	1,830	24,763	26,593

At 30 June 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Forward exchange contracts – cash flow hedges	---	3,185	---	3,185
Total assets	---	3,185	---	3,185
Liabilities				
Forward exchange contracts – cash flow hedges	---	303	---	303
Contingent consideration	---	---	19,286	19,286
Derivative liability	---	---	12,922	12,922
Total liabilities	---	303	32,208	32,511

Note 2. Financial risk management (continued)

(d) Fair value measurements (continued)

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

Recurring fair value measurements

Level 1
The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) and is based on quoted market prices at the end of the reporting period. These instruments are included in level 1. The Group does not hold any of these financial instruments at 30 June 2014 or 30 June 2013.

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 comprise 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.

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. This is the case for contingent consideration and derivative liabilities.

(e) Fair value measurements using significant unobservable inputs (Level 3)

Contingent consideration

The following table presents the changes in level 3 instruments for the years ended 30 June 2014 and 30 June 2013:

Changes in contingent consideration

	2014 $'000	2013 $'000
Balance 1 July	19,286	25,558
Contingent consideration amounts settled	---	(7,354)
Unwind of discount	711	141
Amounts recognised in other income	---	(846)
Amounts recognised in expenses	(2,552)	---
Exchange (gains)/losses	(1,736)	1,787
Balance 30 June	15,709	19,286

(i) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements for the 2014 financial year:

Description	**Fair Value at 30 June 2014 $'000**	**Unobservable inputs**	**Range of inputs (probability weighted average)**	**Relationship of unobservable inputs to fair value**
Contingent Consideration Payable	15,709	EBITDA	$18.1 million - $22.1 million ($20.1 million)	If the expected EBITDA was 10% higher or lower, the fair value would increase/decrease $4.8m.

Note 2. Financial risk management (continued)

(e) Fair value measurements using significant unobservable inputs (Level 3) (continued)

(ii) Valuation processes

Valuations of contingent consideration payable are performed by the finance department of the Group based on the four year business plan projecting forecast profitability and cash flows prepared by management and approved by the Board.

Derivative liabilities

The following table presents the changes in level 3 instruments for the years ended 30 June 2014 and 30 June 2013:

Changes in derivative liabilities

	2014 $'000	2013 $'000
Balance 1 July	12,922	25,709
Derivative liabilites amounts settled	---	(5,850)
Unwind of discount	646	595
Amounts recognised in other income	(4,514)	---
Amounts recognised in expenses	---	9,930
Adjustment recognised through equity	---	(17,462)
Balance 30 June	9,054	12,922

(i) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements for the 2014 financial year:

Description	**Fair Value at 30 June 2014 $'000**	**Unobservable inputs**	**Range of inputs (probability weighted average)**	**Relationship of unobservable inputs to fair value**
Other Derivative Liability - Part 1	3,138	EBIT	$2.5 million - $3.1 million ($2.8 million)	If the expected EBIT was 10% higher or lower, the fair value would increase/decrease $0.3m.
Other Derivative Liability - Part 2	5,916	EBIT	$3.5 million - $4.3 million ($3.9 million)	If the expected EBIT was 10% higher or lower, the fair value would increase/decrease $0.6m.

(ii) Valuation processes

Valuations of the other derivative liabilities are performed by the finance department of the Group based on the four year business plan projecting forecast profitability and cash flows prepared by management and approved by the Board.

(f) Other fair value measurements:

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of borrowings is based upon market prices where a market exists or by discounting the expected future cash flows by the current market interest rate that is adjusted for own credit risk. Refer to note 15(b) and 25(d) for further information.

Note 3. Critical accounting estimates, judgements and errors

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

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

Estimated impairment of goodwill and indefinite life intangibles
The Group tests annually, 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 stated in note 1(i). The recoverable amounts of cash-generating units (CGU's) have been determined based on value-in-use calculations (VIU). These calculations require the use of estimates and judgements, in particular the achievement of forecast growth rates which are determined through a Board approved budgeting process. Assumptions used in impairment testing are detailed in note 18.

If the VIU of a CGU is lower than its carrying amount, then the CGU's fair value less costs of disposal (FVLCD) 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 comparable transactions and observable trading multiples. Assumptions used in impairment testing are detailed in note 18.

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 stated in note 1(i). Impairment tests are performed based on the 'expected recoverable amount' of the asset using either the VIU or FVLCD method. Assumptions used in impairment testing are detailed in note 17.

Deferred or contingent consideration – acquisitions post 1 July 2009
In relation to certain acquisitions that have been made by the Group post 1 July 2009, deferred or contingent consideration may be payable in cash if certain specific conditions are achieved. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange (refer note 35). The discount rate used is the market risk-free rate. Amounts classified as a payable are subsequently remeasured to fair value with changes in fair value recognised in the income statement. Details on how the fair value of the contingent consideration is determined are disclosed in note 2. The calculation of the payable for each acquisition requires the use of estimates and judgements which are reviewed at each reporting period.

Taxation
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.

Given the Group is in a period of restructuring and considering the financial structure going forward, it has been estimated that it is not probable for income tax profits to be generated in a period where the conditions for utilisation of the assets will be met. On this basis, carried forward tax losses and timing differences in territories where deferred tax assets exceed deferred tax liabilities have been written off. Refer note 9.

Onerous Lease/Contract 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 (refer note 8(c)). Judgments and estimates are made in respect of the measurement of provisions for costs associated with the execution of initiatives arising from these initiatives and reviews.

During the prior year the Group entered into certain contracts which are considered to be onerous. Judgments and estimates are made in respect of the measurement of provisions for costs associated with the execution of these contracts.

Note 3. Critical accounting estimates, judgements and errors (continued)

Correction of prior period error

Tax effect accounting for brand intangible assets
Following a review of the deferred tax liability associated with the brand intangible assets held by the Group it has been determined that it is necessary to restate the balance sheet and the income statement for the financial year ended 30 June 2012.

It should be noted that there has been no cash flow impact associated with the restatement for 2012 or any subsequent period, nor has there been any income statement impact on any reporting periods subsequent to 30 June 2012.

At 30 June 2012 the carrying value of a brand intangible asset held by the Group was impaired. The deferred tax liability attributable to this impaired intangible continued to be carried in the balance sheet at this date. It has since been determined that upon impairing the brand carrying value the associated deferred tax liability should have been de-recognised.

The financial impacts of the restatement to the financial statements at 30 June 2012 are:

Income statement changes
- an increase in the income tax benefit from continuing operations in the income statement by $45.0 million;
- a decrease in the loss from continuing operations by $45.0 million to $437.7 million; and
- a decrease in the loss for the year by $45.0 million to $230.7 million.

Balance sheet changes
- a reduction in the deferred tax liability of $44.2 million;
- an increase in the deferred tax asset of $0.8 million; and
- an increase in the retained earnings by $45.0 million to $392.0 million.

These adjustments were recognised in the 30 June 2012 reporting period which is immediately prior to the comparative disclosures included in this annual report.

As a consequence, the balance sheet comparatives at 30 June 2013 and 30 June 2012 in this annual report for the year ended 30 June 2014 have been restated with the only impact being on deferred tax liabilities, deferred tax assets and retained losses.

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

	30 June 2013 $'000	Deferred Tax Adjustment $'000	30 June 2013 Restated $'000	30 June 2012 $'000	Deferred Tax Adjustment $'000	30 June 2012 Restated $'000
Deferred tax asset	49,747	6,550	56,297	71,098	815	71,913
Deferred tax liability	38,446	(38,446)	---	44,181	(44,181)	---
Net Assets	267,071	44,996	312,067	1,027,265	44,996	1,072,261
Retained losses	(512,571)	44,996	(467,575)	346,970	44,996	391,966
Total Equity	267,071	44,996	312,067	1,027,265	44,996	1,072,261

Note 4. Segment information

(a) Description of segments

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

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

The geographic segments are organised as below:

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

Americas
This segment includes the United States of America, Canada, Brazil, Peru and Chile. Peru and Chile going forward will be operated by a distributor.

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

Rest of the World
This segment relates to royalty receipts from third party operations and the share of net loss after-tax of associate.

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).

In the 2014 financial year, the measurement of geographical segment assets have been revised to exclude related party balances and deferred tax assets. As a consequence, the 2013 segment asset have been restated.

(b) Segment information provided to the CEO

The segment information provided to the CEO for the reportable segments for the year ended 30 June 2014 is as follows:

The below shows the total of results from continuing and discontinued operations. For a breakdown of continuing and discontinued operations, refer to (c) below.

Note 4. Segment information (continued)

(b) Segment information provided to the CEO (continued)

2014	Australasia $'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	480,500	537,969	199,041	---	1,217,510
Third party royalties	---	---	---	2,842	2,842
Total segment revenue	480,500	537,969	199,041	2,842	1,220,352
EBITDAI	14,593	(48,988)	(20,754)	2,842	(52,307)
Less: depreciation and amortisation					(39,654)
Less: impairment charges					(29,255)
Less: fair value adjustment on reclassification of West 49 as held for sale during the year					(17,718)
Less: net interest expense					(34,205)
Loss before income tax					(173,139)
Segment assets	335,652	282,703	132,671	---	751,026
Unallocated assets:					
Deferred tax					840
Total assets					751,866
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	13,364	14,983	4,749	---	33,096

Restated 2013	Australasia $'000	Americas $'000	Europe $'000	Other* $'000	Rest of the World $'000	Total $'000
Total from continuing and discontinued operations including significant items						
Sales to external customers	471,764	636,764	232,064	---	---	1,340,592
Third party royalties	---	---	---	---	2,759	2,759
Total segment revenue	471,764	636,764	232,064	---	2,759	1,343,351
EBITDAI	4,362	19,527	(25,065)	(3,482)	2,759	(1,899)
Plus: share of net loss after tax of associate accounted for using the equity method (note 16)						(4,979)
Less: depreciation and amortisation						(45,473)
Less: impairment charges						(766,499)
Less: net interest expense						(12,434)
Loss before income tax						(831,284)
Segment assets	364,298	432,876	165,821	---	---	962,995
Unallocated assets:						
Deferred tax**						56,297
Total assets						1,019,292
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	13,957	15,435	12,174	---	---	41,566

***** Included in the 'Other' segment for the year ended 30 June 2013 is a $3.5 million adjustment to the provision for the Nixon onerous contracts (note 10).

** Refer to correction of tax error (note 3).

Note 4. Segment information (continued)

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

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

2014	Australasia $'000	Americas $'000	Europe $'000	Rest of the World $'000	Total $'000
From continuing operations including significant items					
Sales to external customers	480,500	442,598	196,068	---	1,119,166
Third party royalties	---	---	---	2,842	2,842
Total segment revenue	480,500	442,598	196,068	2,842	1,122,008
EBITDAI	14,593	(31,325)	(20,271)	2,842	(34,161)
Less: depreciation and amortisation					(37,698)
Less: impairment charges					(29,255)
Less: net interest expense					(34,122)
Loss before income tax					(135,236)

2014	Australasia $'000	Americas $'000	Europe $'000	Rest of the World $'000	Total $'000
From discontinued operations including significant items					
Sales to external customers	---	95,371	2,973	---	98,344
Third party royalties	---	---	---	---	---
Total segment revenue	---	95,371	2,973	---	98,344
EBITDAI	---	(17,664)	(482)		(18,146)
Less: depreciation and amortisation					(1,956)
Less: impairment charges					---
Less: fair value adjustment on reclassification of West 49 as held for sale during the year					(17,718)
Add: net interest expense					(83)
Loss before income tax (note 10)					(37,903)

Note 4. Segment information (continued)

(c) Breakdown of segment results between continuing and discontinuing operations (continued)

2013	Australasia $'000	Americas $'000	Europe $'000	Rest of the World $'000	Total $'000
From continuing operations including significant items					
Sales to external customers	471,764	450,265	180,899	---	1,102,928
Third party royalties	---	---	---	2,759	2,759
Total segment revenue	471,764	450,265	180,899	2,759	1,105,687
EBITDAI	4,362	29,274	(33,840)	2,759	2,555
Plus: share of net profit after tax of associate accounted for using the equity method					(4,979)
Less: depreciation and amortisation					(40,287)
Less: impairment charges					(600,812)
Less: net interest expense					(10,348)
Loss before income tax					(653,871)

2013	Australasia $'000	Americas $'000	Europe $'000	Other* $'000	Rest of the World $'000	Total $'000
From discontinued operations including significant items						
Sales to external customers	---	186,499	51,165	---	---	237,664
Third party royalties	---	---	---	---	---	---
Total segment revenue	---	186,499	51,165	---	---	237,664
EBITDAI	---	(9,747)	8,775	(3,482)	---	(4,454)
Less: depreciation and amortisation						(5,186)
Less: impairment charges						(165,687)
Less: net interest expense						(2,086)
Loss before income tax (note 10)						(177,413)

* Adjustment to onerous supply agreement.

Note 4. Segment information (continued)

(d) Other segment information

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

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

	2014 $'000	2013 $'000
Total segment revenue	1,220,352	1,343,351
Other revenue, including interest revenue	3,446	1,805
Less: revenue from discontinued operations	(98,344)	(237,664)
Total revenue from continuing operations	1,125,454	1,107,492

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

(iii) Other segment revenue information
Based on statutory legal entity reporting, segment revenue in relation to Australia represents 68% of Australasia (2013: 67%), segment revenue in relation to the United States of America represents 64% of Americas (2013: 56%) and segment revenue in relation to France represents 86% of Europe (2013: 86%).

Segment revenue in relation to retail represents 54% of the Group's total turnover for the year ended 30 June 2014 (2013: 50%), 71% of Australasia's total turnover for the year ended 30 June 2014 (2013: 71%), 43% of Americas' total turnover for the year ended 30 June 2014 (2013: 44%) and 41% of Europe's total turnover for the year ended 30 June 2014 (2013: 28%).

No single customer represents more than 10% of the Group's total turnover for the years ended 30 June 2014 and 30 June 2013.

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

Segment assets, excluding deferred tax assets, in relation to Australia represents 76% of Australasia (2013: 74%), in relation to the United States of America represents 80% of Americas (2013: 68%) and in relation to France represents 83% of Europe (2013: 82%).

Note 5. Revenue

	2014 $'000	2013 $'000
From continuing operations		
Sales revenue		
Sale of goods	1,119,166	1,102,928
Royalties	2,842	2,759
	1,122,008	1,105,687
Other revenue		
Interest	1,417	946
Other	2,029	859
	3,446	1,805
Total revenue from continuing operations	1,125,454	1,107,492
From discontinued operations (note 10)		
Sale of goods	98,344	237,664
Interest	37	54
	98,381	237,718

Note 6. Other income

	2014 $'000	2013 $'000
From continuing operations		
Foreign exchange gains	4,063	11,930
Gain from adjustment to contingent consideration (note 28)	---	846
Fair value adjustment to derivative liabilities (note 32)	4,514	---
Other	2,213	2,321
	10,790	15,097

Note 7. Expenses

	2014 $'000	2013 $'000
From continuing operations		
Loss before income tax includes the following specific expenses:		
Expenses		
Cost of goods sold *	555,758	541,466
Selling, general and administrative expenses **	466,634	457,098
*Employee benefits expense (included in the amounts above)****	237,827	241,997
Depreciation		
Buildings	792	1,520
Plant and equipment	23,487	27,476
Plant and equipment under finance lease	1,612	1,427
Total depreciation ^	25,891	30,423
Amortisation of finite life intangible assets ^	9,470	6,294
Interest and finance charges		
Interest expense	35,539	11,294
Other borrowing costs	750	2,294
Amortisation of capitalised borrowing costs	2,337	3,570
Write-off of capitalised borrowing costs (note 8)	42,062	5,105
Provisions: unwinding of discounts	1,678	2,269
Total interest and finance charges	82,366	24,532
Net loss on disposal of property, plant and equipment ^	467	782
Loss from adjustment to contingent consideration (note 8) ^	5,915	---
Fair value adjustment to derivative liabilities (note 32) ^	---	9,930
Rental expense relating to operating leases		
Minimum lease payments	85,016	88,405
Contingent rentals	1,123	452
Total rental expense relating to operating leases ^	86,139	88,857
Impairment of other assets		
Inventories (included in the cost of goods sold amount above)	23,411	30,005
Trade receivables ^	9,585	11,287
Intangibles ^	29,255	439,611
Property, plant and equipment ^	---	31,601
Impairment of investment accounted for using the equity method ^	---	129,600

* Included in cost of goods sold are a number of significant items. Refer to note 8 for further information.

** Included in selling, general and administrative expenses are a number of significant items. Refer to note 8 for further information.

*** Included in employee benefits expenses are a number of significant items. Refer to note 8 for further information.

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

Note 8. Significant items

The following significant items impact (loss)/profit before income tax:

	2014 $'000	2013 $'000
From continuing operations:		
Significant items included in cost of goods sold (note (a))		
Net realisable value shortfall expense on inventory realised	13,612	23,218
	13,612	23,218
Significant items included in other income (note (b))		
Term debt repayment foreign exchange derivative impact	(4,220)	---
Fair value adjustment to derivative liabilities (note 6)	(4,514)	---
Gain from adjustment to contingent consideration (note 6)	---	(846)
Foreign currency translation reserve reclassified to income statement	(680)	(13,812)
	(9,414)	(14,658)
Significant items included in selling, general and administrative expenses (note (c))		
Specific doubtful debts expense	(1,263)	6,124
Early termination of leases and onerous lease/restructuring expense	(1,019)	1,249
Potential control or refinancing proposal costs	1,595	10,437
Transformation strategy and other restructuring costs	19,210	14,570
Surfstitch compensation and other expense	243	2,367
Redundancy costs	5,985	9,554
South American sales tax provision/restructuring	5,252	---
RVCA compensation expense (note 28)	4,493	---
	34,496	44,301
Significant items included in other expenses (note (d))		
Loss from adjustment to contingent consideration (note 28)	5,915	---
Fair value adjustment to derivative liabilities	---	9,930
Impairment of goodwill, brands and other intangibles (note 18)	29,255	439,611
Impairment of property, plant and equipment (note 17)	---	31,601
Impairment of investment accounted for using the equity method (note 16)	---	129,600
Asset disposals	---	693
	35,170	611,435
Significant items included in finance costs (note (e))		
Borrowing costs	42,062	5,105
	42,062	5,105
Total from continuing operations	115,926	669,401

Note 8. Significant items (continued)

	2014 $'000	2013 $'000
From discontinued operations (note 10):		
Significant items included in discontinued operations (note (f))		
Adjustment to onerous supply agreement provision	---	3,482
West 49 loss on sale, including transaction costs	10,141	---
Fair value adjustment on reclassification of West 49 as held for sale during the year	17,718	---
DaKine loss on sale, including transaction costs	1,189	---
Redundancy costs	1,235	---
Net realisable value shortfall expense on inventory realised	---	2,705
Early termination of leases and onerous lease/restructuring expense	---	(462)
Asset disposals	---	230
Impairment of goodwill, brands and other intangibles (note 18)	---	164,705
Impairment of property, plant and equipment (note 17)	---	982
Total significant items from discontinued operations	30,283	171,642
Total significant items	146,209	841,043

(a) Significant items included in cost of goods sold

(i) Net realisable value shortfall expense on inventory realised
In the year ended 30 June 2013 as a result of the strategic capital structure review by the Group and business simplification identified as part of the transformation strategy a decision was made to liquidate specific parcels of stock below cost to clear inventory. In the year ended 30 June 2014 as a result of further analysis of previously written down inventory (included in prior year significant items), a current year adjustment has been made in relation to this inventory given the limited distribution channels due to the age of the product and consideration of the inventory valuations on a consistent basis across the Group. As a result of the restructuring of the South American business a significant write down of inventory was required.

(b) Significant items included in other income

(i) Term debt repayment foreign exchange derivative impact
In respect of the $135.0 million share placement to Centerbridge / Oaktree Consortium ("C/O Consortium") which occurred on 6 February 2014, it had been agreed the New Term Debt would be deemed to be prepaid by the amount of the net issuance proceeds converted into USD at the rate of 0.924 AUD/USD. This agreed exchange rate resulted in a realised foreign exchange gain in the income statement which is non-recurring in nature.

(ii) Fair value adjustment to derivative liabilities
In accordance with Australian Accounting Standards, adjustments to derivative liabilities held at fair value must be recorded through the income statement. This item relates to Surfstitch put and call options which were restated taking into account the latest Board approved forecasts and is considered to be a significant item given its nature is outside of normal trading.

(iii) 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 relates to RVCA deferred consideration payable which was restated taking into account the latest Board approved forecasts 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 year ended 30 June 2014 the Group wound up a number of foreign denominated functional currency entities in Asia and South America. In prior years the cumulative amount of exchange differences arising from the translation of these entities to AUD has 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 are removed from this reserve and recognised in the income statement.

During the year ended 30 June 2013 the Group wound up a number of dormant USD functional currency entities. In prior years the cumulative amount of exchange differences arising from the translation of these entities to AUD has 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 are removed from this reserve and recognised in the income statement.

Note 8. Significant items (continued)

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

(i) Specific doubtful debts expense
During the year ended 30 June 2014 the Group reversed a portion of the prior year's specific doubtful debts expense as either cash was collected or it was determined that a portion would be recoverable at a future date.

In the prior year in a number of geographies, the Group had discontinued or was in the process of ceasing arrangements with specific wholesale accounts as a result of either their financial position and/or the decision not to supply product under specific arrangements. As the discontinuation of supply to these accounts may have resulted in recoverability issues arising in the current outstanding amounts due to the Group, a provision was raised against these large receivable balances.

(ii) Early termination of leases and onerous lease / restructuring expense
In the prior year 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. Actual costs included costs incurred for store closures after the announcement of the strategic capital structure review and costs incurred for those store closures to occur post 30 June 2013. Any provision recognised in a prior year which was surplus to the Group's requirement was recognised as a significant income write-back.

(iii) Potential control or refinancing proposal costs
As a result of the various recapitalisation and takeover proposals the Group has received during the years ended 30 June 2014 and 30 June 2013, significant bid related costs have been incurred in responding to these proposals and facilitating due diligence.

(iv) Transformation strategy and other restructuring costs
As a result of the transformation strategy announced to the market in August 2012 and the further restructuring announced in December 2013 following the appointment of CEO Neil Fiske, significant consulting costs were incurred, firstly during the year ended 30 June 2013 as work was undertaken to develop and implement the restructure of the Group and second, following Mr Fiske's appointment, during the year ended 30 June 2014 whereby additional restructuring has been identified.

Restructuring initiatives include the exit of certain geographies, conversion to distributor models in certain geographies and/or the exit of certain brands in particular geographies where those brands are sub-scale. These initiatives were intended to simplify the operations of the Group and enable management to focus on those areas of the business which will deliver the greatest return.

(v) Surfstitch compensation and other expense
Under the terms of the options to acquire the remaining shares that the Company does not already own in Surfstitch Australia and Surfstitch Europe, and in accordance with Australian Accounting Standards, the Company is required to recognise through the income statement any deemed compensation expense attached to those options in respect of key employees who continue in the business. This is a non-cash accounting item essentially relating to the acquisition of the remaining shares in these businesses. This will only become a cash item if the put and call options under the relevant agreements are exercised in future periods. This is considered to be a significant item given its nature is outside of normal trading.

(vi) Redundancy costs
In the current year as a result of the restructuring of the South American business (including the appointment of a distributor in Peru and Chile), continued restructuring of Europe and senior management of the Group in line with the various restructuring plans, redundancy costs have been incurred during the year ended 30 June 2014. Actual costs included costs expected for those redundancies to occur post 30 June 2014 where there was a constructive obligation and it is probable that an outflow of economic resources will be required to settle the obligation and the amount could be reliably estimated.

In the prior year as a result of the previously announced strategic capital structure review and transformation strategy which flagged significant cost saving activities, the Group incurred redundancy costs. Actual costs included redundancies which occurred since the announcement of these initiatives and costs expected for those redundancies to occur post 30 June 2013 where there was a constructive obligation and it is probable that an outflow of economic resources will be required to settle the obligation and the amount could be reliably estimated.

(vii) South American sales tax provision / restructuring
A provision for VAT (Value Added Tax) credits and associated penalties and interest (that are being disputed by the tax authorities) has been recognised in the year ended 30 June 2014 results however the provision relates to transactions which occurred in the years ended 30 June 2009 through 30 June 2011. The matter is being defended.

Note 8. Significant items (continued)

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

(viii) RVCA compensation expense
Under the terms of the new contract with Pat Tenore, the founder of RVCA, announced to the market on 6 February 2014 and in accordance with Australian Accounting Standards, the Company 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 an amendment to the 2015 earn out arrangements which were negotiated as part of the original acquisition in 2010, a new performance related component for the period to 2018, and the issue of 1.2 million ten year options exercisable at $0.60 per option. This is a non-cash accounting item for the year ended 30 June 2014. This will only become a cash item if the required targets under the agreement are met in future reporting periods. This is considered to be a significant item given its nature is outside of normal trading.

(d) Significant items included in other expenses

(i) 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 which was restated taking into account the latest Board approved forecasts and this is considered to be a significant item given its nature is outside of normal trading.

(ii) Fair value adjustment to derivative liabilities
In accordance with Australian Accounting Standards, adjustments to derivative liabilities held at fair value must be recorded through the income statement. This item relates to Surfstitch put and call options which were restated taking into account the latest Board approved forecasts and the renegotiation of the agreement surrounding the 2015 earn out. This item is considered to be a significant item given its nature is outside of normal trading.

(iii) Impairment of goodwill and brands and other intangibles
Refer to note 18 for detailed disclosure surrounding the impairment of goodwill and brands and other intangibles during the years ended 30 June 2014 and 30 June 2013.

(iv) Impairment of property, plant and equipment
Refer to note 17 for detailed disclosure surrounding the impairment of property, plant and equipment during the year ended 30 June 2013.

(v) Impairment of investment accounted for using the equity method
Refer to note 16 for detailed disclosure surrounding the impairment of investment accounted for using the equity method during the year ended 30 June 2013.

(e) Significant items included in finance costs

(i) Borrowing costs
As a result of the Group's announcement on 19 September 2013 of its intention to recapitalise the Group through the C/O Consortium, all capitalised borrowing costs associated with the establishment of the Altamont Consortium facility in July 2013 together with the break fee of $6.0 million (paid in November 2013) have been written off. A portion of C/O Consortium capitalised borrowing costs associated with the establishment of the C/O Consortium facility have also been written off due to the prepayment of part of this facility during the year ended 30 June 2014 by way of the equity raising (refer notes 25 and 29).

In the prior year as a result of the Group's announcement on 4 June 2013 of its intention to undertake a refinancing of its secured Syndicated Revolving Multi-Currency Facility, all capitalised borrowing costs associated with this facility were written off.

(f) Significant items included in discontinued operations

(i) Fair value adjustment on reclassification of West 49 as held for sale during the year
In relation to the sale of West 49, as at 31 December 2013 the assets classified as held for sale were adjusted to their fair value based on information available at balance sheet date using the terms of the sales agreement.

Note 9. Income tax expense

	2014 $'000	2013 $'000
(a) Income tax expense		
Current tax	4,246	13,025
Deferred tax	57,544	19,861
Adjustments for current tax of prior periods	5,004	(1,168)
	66,794	31,718
Income tax expense/(benefit) is attributable to:		
Loss from continuing operations	74,576	29,861
Loss from discontinued operations (note 10)	(7,782)	1,857
Aggregate income tax expense	66,794	31,718
Deferred income tax revenue included in income tax expense comprises:		
Decrease/(Increase) in deferred tax assets (note 19)	50,468	38,608
(Decrease)/increase in deferred tax liabilities (note 26)	7,076	(18,747)
	57,544	19,861
(b) Reconciliation of income tax expense to prima facie tax payable		
(Loss)/profit from continuing operations before income tax expense	(135,236)	(653,871)
(Loss)/profit from discontinuing operation before income tax expense	(37,903)	(177,413)
	(173,139)	(831,284)
Tax at the Australian tax rate of 30% (2013: 30%)	(51,941)	(249,385)
Tax effect of amounts which are not (taxable)/deductible in calculating taxable income:		
Net exempt expense/(income)	809	(6,007)
Impairment	14,573	202,125
Non-claimable credits	4,226	---
Adjustment to contingent consideration	---	(1,029)
Unwind of contingent tax provision	(7,782)	---
Sundry items	3,708	4,666
Non-deductible options	1,232	---
Other non-deductible permanent differences	3,237	9,276
	(31,938)	(40,354)
Difference in overseas tax rates	(4,404)	3,754
(Over)/under provision in prior years	5,002	(1,168)
Prior year tax losses previously not recognised	(309)	(612)
Other tax credit not recognised	---	8,500
Tax losses not recognised in current period	55,803	61,598
Other deferred tax assets derecognised in current period	45,189	---
Foreign currency related items	(2,549)	---
Income tax expense/(benefit)	66,794	31,718
(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	(1,112)	(757)
	(1,112)	(757)
(d) Tax (benefit) / expense relating to items of other comprehensive income		
Cash flow hedges (note 19, note 26)	(1,023)	458
Investment hedge (note 19, note 26)	---	(1,693)
	(1,023)	(1,235)

Note 9. Income tax expense (continued)

	2014 $'000	2013 $'000
(e) Unrecognised tax losses and temporary differences		
Unused tax losses for which no deferred tax asset has been recognised	433,476	278,391
Unused temporary differences for which no deferred tax asset has been recognised	150,630	---
Total unrecognised tax losses and temporary differences	584,106	278,391
Potential tax benefit @ 30%	175,232	83,517

(f) Tax consolidation legislation

Billabong International Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002. The accounting policy in relation to this legislation is set out in note 1(bb).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Billabong International Limited.

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

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

(g) Other matters

The aggregate income tax expense for the year ended 30 June 2014 was $66.8 million. During the year ended 30 June 2014 the Company made the decision to write off the majority of its deferred tax assets (net of deferred tax liabilities) as it has been estimated that it is not probable for income tax profits to be generated in a period where the conditions for utilisation of the assets will be met. The charge taken during the period for the write off of the deferred tax assets was $45.2 million.

Note 10. Discontinued operations

(i) Description

2014
On 23 July 2013 the Company announced it had sold the DaKine brand and its operations to Altamont for a purchase price of $70 million. The results of DaKine have been reported in these financial statements as a discontinued operation.

On 4 November 2013 the Group announced that it had entered an agreement to sell its Canadian retail chain, West 49, to YM Inc. The Group also announced that it had entered into an approximate CA$34 million non-exclusive wholesale agreement with YM Inc. over the next two years. On 6 February 2014 the Company announced it had sold West 49 to YM Inc. for a purchase price of CA$3 million. The results of West 49 have been reported in these financial statements as a discontinued operation.

2013
On 17 April 2012 the Group sold 51.5% of Nixon Investments LLC (Nixon) with 48.5% being purchased by Trilantic Capital Partners and 3% being purchased by Nixon management. The Group retained a 48.5% interest in Nixon. The agreement was signed on 16 April 2012 with effect from 17 April 2012 and Nixon has been reported in these financial statements as a discontinued operation.

On 23 July 2013 the Group's interest in Nixon was further restructured which reduced the Group's commitment to purchase previously agreed volumes of product in exchange for make good payments and the dilution of the Group's interest in Nixon Joint Venture from 48.5% to 4.85% and as such Nixon is no longer treated as an associate.

Financial information relating to the discontinued operations for the years ended 30 June 2014 and 30 June 2013 is set out below.

(ii) Financial performance and cash flow information

The financial performance and cash flow information presented are for the year ended 30 June 2014 and the year ended 30 June 2013.

	2014 $'000	2013 $'000
Revenue (note 5)	98,381	237,718
Expenses	(124,954)	(415,131)
Loss before income tax (includes significant items- see below)	(26,573)	(177,413)
Income tax benefit/(expense)	7,782	(1,857)
Loss after income tax of discontinued operations	(18,791)	(179,270)
Loss on sale, including transaction costs before income tax (note 8)	(11,330)	---
Income tax expense	---	---
Loss on sale, including transaction costs after income tax	(11,330)	---
Loss from discontinued operations	(30,121)	(179,270)

2014 Significant Items: included in the year ended 30 June 2014 expense is $17.7 million fair value adjustment on reclassification of West 49 as held for sale during the year. Total significant items impacting the loss before income tax is $18.9 million.

2013 Significant Items: included in the year ended 30 June 2013 expense is a $3.5 million adjustment to the provision for the Nixon onerous contracts and impairment charges relating to DaKine and West 49 intangible assets. Total significant items impacting the loss before income tax is $171.6 million.

For details of the partial sale of Nixon and the carrying value of assets and liabilities as at the date of sale refer to note 16. The majority of the Group's remaining interest in Nixon was disposed of in July 2013.

Note 10. Discontinued operations (continued)

(ii) Financial performance and cash flow information (continued)

	2014 $'000	2013 $'000
Net cash inflow from operating activities	12,696	30,301
Net cash inflow/(outflow) from investing activities*	81,368	(40,046)
Net cash outflow from financing activities	---	(4,849)
Net increase in cash generated by discontinued operations	94,064	(14,594)

* 2014 includes proceeds from sale of business, net of cash divested and transaction costs totalling $83.9 million. This relates to inflow of $69.2 million from the sale of DaKine, inflow of $1.0 million from the sale of West 49 and inflow of $13.7 million relating to other immaterial divestments including Peru and Chile. Partially offsetting the $83.9 million is payments for property, plant and equipment and DaKine deferred consideration totalling US$1.5 million (refer note 38). Peru and Chile results have not been included in discontinued operations due to the impact on the Group's income statement not being material as the Group continues to generate revenue and earnings by selling directly to a distributor.

2013 includes an outflow of $36.0 million for DaKine deferred consideration in relation to the original acquisition of the brand.

(iii) Details of the sale of DaKine

	2014 $'000
Consideration received or receivable:	
Cash net of transaction costs	69,207
Total disposal consideration	69,207
Carrying value of net assets sold	(70,396)
Loss on sale, including transaction costs before income tax	(1,189)
Income tax	---
Loss on sale, including transaction costs after income tax	(1,189)

The carrying value of assets and liabilities as at the date of sale (23 July 2013) were:

	23 July 2013 Carrying value $'000
Trade and other receivables	23,685
Inventory	22,675
Plant and equipment (note 17)	1,428
Identifiable intangible assets (note 18)	36,947
Total assets	84,735
Trade and other payables	(14,339)
Total liabilities	(14,339)
Net assets	70,396

Note 10. Discontinued operations (continued)

(iv) Details of the sale of West 49

	2014 $'000
Consideration received or receivable:	
Cash net of transaction costs	954
Total disposal consideration	954
Carrying value of assets sold	(4,810)
Foreign currency translation reserve reclassified to income statement	(4,039)
Present value of onerous contracts	(2,246)
Loss on sale, including transaction costs before income tax	(10,141)
Income tax expense	---
Loss on sale, including transaction costs after income tax	(10,141)

The carrying value of assets and liabilities as at the date of sale (6 February 2014) were:

	6 February 2014 Carrying value $'000
Cash and cash equivalents	64
Trade and other receivables	2,029
Inventory	17,350
Plant and equipment (note 17)	164
Total assets	19,607
Trade and other payables	(14,280)
Employee entitlements	(517)
Total liabilities	(14,797)
Net assets	4,810

Note 11. Current assets – Cash and cash equivalents

	2014 $'000	2013 $'000
Cash at bank and in hand	112,236	80,919
Deposits at call	32,834	32,918
	145,070	113,837

Note 11. Current assets – Cash and cash equivalents (continued)

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the consolidated statement of cash flows as follows:

	2014 $'000	2013 $'000
Balances as above	145,070	113,837
Bank overdrafts (note 22)	---	(513)
Balances per statement of cash flows	145,070	113,324

Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 2.

Note 12. Current assets – Trade and other receivables

	2014 $'000	2013 $'000
Trade receivables	174,538	234,425
Provision for impairment of receivables (note (a))	(30,566)	(41,241)
	143,972	193,184
Other receivables (note (c))	9,878	11,245
	153,850	204,429

(a) Impaired trade receivables

As at 30 June 2014 current trade receivables of the Group with a nominal value of $35.8 million (2013: $52.9 million) were impaired. The amount of the provision was $30.6 million (2013: $41.2 million). The individually impaired receivables mainly relate to retailers encountering difficult economic conditions. It was assessed that a portion of the receivables is expected to be recovered.

The ageing of these receivables is as follows:

	2014 $'000	2013 $'000
Up to 3 months	7,585	12,914
3 to 6 months	1,827	4,744
Over 6 months	26,398	35,291
	35,810	52,949

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

	2014 $'000	2013 $'000
At 1 July	41,241	39,551
Provision for impairment recognised during the year	9,585	11,665
Receivables written off, collected or returns during the year	(20,032)	(13,137)
Disposal of discontinued operations	(483)	---
Exchange differences	255	3,162
At 30 June	30,566	41,241

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Note 12. Current assets – Trade and other receivables (continued)

(b) Past due but not impaired

As at 30 June 2014, trade receivables of $35.0 million (2013: $45.0 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:

	2014 $'000	2013 $'000
Up to 3 months	25,162	31,954
3 to 6 months	5,612	5,628
Over 6 months	4,223	7,454
	34,997	45,036

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

(c) Other receivables

Other amounts included in other receivables generally arise from transactions outside the usual operating activities of the consolidated entity. Collateral is not normally obtained.

(d) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign exchange risk and interest rate risk in relation to trade and other receivables is provided in note 2.

(e) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The Group does not hold any collateral as security. Refer to note 2 for more information on the Risk Management Policy of the Group and the credit quality of the Group's trade receivables.

Note 13. Current assets – Inventories

	2014 $'000	2013 $'000
Raw materials and stores – at cost	2,179	3,640
Work in progress – at cost	6,589	12,584
Finished goods:		
– at cost	158,078	226,217
– at net realisable value	13,376	24,365
	180,222	266,806

Inventory expense
Inventories recognised as an expense from continuing operations during the year ended 30 June 2014 amounted to $590.9 million (2013: $651.4 million). Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2014 amounted to $23.4 million (2013: $31.0 million) with $2.7 million (2013: $7.2 million) representing inventory realised through sale to customers during the year. The expense has been included in 'cost of goods sold' in the income statement. The $23.4 million write down includes $13.6 million of significant item write downs (refer to note 8).

Note 14. Current assets – Other

	2014 $'000	2013 $'000
Prepayments	13,366	19,491
Capitalised borrowing costs	---	2,229
Derivative financial assets (note 32)	91	3,185
	13,457	24,905

Risk exposure
Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2.

Note 15. Non-current assets – Receivables

	2014 $'000	2013 $'000
Other receivables	10,275	8,522
	10,275	8,522

Other receivables predominantly relate to store lease deposits.

(a) Impaired receivables and receivables past due

None of the non-current receivables are impaired (2013: Nil) and none of the non-current receivables are considered past due but not impaired (2013: Nil).

(b) Fair values

The fair values and carrying values of non-current receivables are as follows:

	2014		2013	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Other receivables	10,275	10,275	8,522	8,522

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.

(c) Risk exposure

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2.

Note 16. Non-current assets – Investment accounted for using the equity method

At 30 June 2013 the Group had a 48.5% interest in Nixon Investments, LLC, a leader in the premium watch and accessories action sports market. Nixon Investments, LLC is resident in the United States of America. On 23 July 2013 the Group entered into agreements with Nixon Investments, LLC and Trilantic Capital Partners (collectively Nixon) to reduce the Group's commitment to purchase previously agreed volumes of product from Nixon over a four year period. As a result of these agreements the Group's interest in Nixon Investments, LLC was reduced to 4.85%. As a result Nixon is no longer treated as an associate.

(a) Movements in carrying amounts

	2014 $'000	2013 $'000
Carrying amount at the beginning of the financial year	---	134,579
Carrying value of initial investment	---	---
Share of loss after income tax	---	(4,979)
Impairment charge	---	(129,600)
Carrying amount at the end of the financial year	---	---

Note 16. Non-current assets – Investment accounted for using the equity method (continued)

(b) Summarised financial information of associate

	2014 $'000	2013 $'000
The Group's share of:		
Assets	---	269,535
Liabilities	---	158,036
Revenues	---	63,677
Loss	---	(4,979)

These balances are reflective of the Group's notional share of assets and liabilities, revenues and results based on the percentage of investment held at balance date. However due to the joint venture arrangements detailed below, this does not reflect the Group's actual entitlement on a sale or exit event.

(c) Contingent liabilities of associate

As at 30 June 2013 Nixon Investments, LLC had no contingent liabilities.

(d) Impairment test of investment accounted for using the equity method

Investments in associates are accounted for using the equity method of accounting unless they are held for sale. As at 30 June 2013, the equity method was used for the Company's joint venture investment in Nixon. For this investment an impairment test was performed based on the 'expected recoverable amount' of this asset using the fair value less costs to sell method (Expected Recoverable Amount). The Board considered that this represented the most likely basis upon which the value of the investment would be realised at some time in the future. The key assumptions in the Expected Recoverable Amount model were EBITDA growth rate of 9% per annum, a future transaction multiple of 8 times and an after tax discount rate of 11.75%.

Based on the forecasts at that time the Company wrote down its investment in the Nixon joint venture by $129.6 million to nil, being the Expected Recoverable Amount.

In determining the Expected Recoverable Amount of this asset, the Board had regard to:

1. the deterioration in the trading of Nixon since the establishment of the joint venture, and a reduction in expected future earnings as compared to those forecast at the time of establishment;
2. the capital structure of Nixon which included US$175.0 million in debt;
3. the terms of the joint venture arrangements entered into when the Company sold its equity interest in Nixon down to 48.5% in April 2012; and
4. the renegotiation of the supply agreements with Nixon and the subsequent dilution of the Group's interest in the associate.

The capital structure and the terms of the joint venture arrangements mean that the value of the Company's interest in Nixon was highly leveraged to the expected future performance of Nixon such that further variations (including improvements) in performance have a significant impact on the value of Nixon equity generally, and the Company's interest in Nixon in particular. In these circumstances the Board noted the potentially wide range of possible valuation outcomes for the Company's investment in Nixon.

At 30 June 2013 the Company held 48.5% of the outstanding equity interest in the Nixon joint venture in the form of "Class A Common Units" whereas Trilantic Capital Partners (as to 48.5%) and Nixon management (as to 3%) held their interests in the form of "Class A Preferred Units".

The Common Units only participate in the proceeds received from a sale or dissolution of Nixon once the Preferred Units have received both a return of their capital and a preferred return of 12% per annum compound on that capital. Hence in the event of poor performance and consequently lower sale proceeds, the returns to the Common Units will be less than those on the Preferred Units. In the event of significantly lower sale proceeds, the return to the Common Units could be zero.

Conversely, in the event of very strong performance and consequently high sale proceeds, the returns to the Common Units can be greater than those to the Preferred Units.

Note 17. Non-current assets – Property, plant and equipment

	Land and buildings	Furniture, fittings and equipment	Leased plant and equipment	Total
	$'000	$'000	$'000	$'000
At 30 June 2012				
Cost	52,128	278,755	16,457	347,340
Accumulated depreciation and impairment	(6,196)	(175,789)	(5,202)	(187,187)
Net book amount	45,932	102,966	11,255	160,153
Year ended 30 June 2013				
Opening net book amount	45,932	102,966	11,255	160,153
Additions	---	24,263	---	24,263
Disposals	---	(1,501)	---	(1,501)
Depreciation charge	(1,520)	(31,919)	(1,427)	(34,866)
Impairment charge	(15,049)	(17,534)	---	(32,583)
Exchange differences	503	1,172	1,410	3,085
Closing net book amount	29,866	77,447	11,238	118,551
At 30 June 2013				
Cost	52,842	295,460	18,767	367,069
Accumulated depreciation and impairment	(22,976)	(218,013)	(7,529)	(248,518)
Net book amount	29,866	77,447	11,238	118,551

	Land and buildings	Furniture, fittings and equipment	Leased plant and equipment	Total
	$'000	$'000	$'000	$'000
Year ended 30 June 2014				
Opening net book amount	29,866	77,447	11,238	118,551
Additions	---	15,975	---	15,975
Disposals	---	(467)	---	(467)
Disposal of discontinued operations (note 10)	---	(1,592)	---	(1,592)
Disposals- immaterial divestments	---	(1,102)	---	(1,102)
Depreciation charge	(792)	(25,076)	(1,612)	(27,480)
Fair value adjustment on reclassification of West 49 as held for sale during the year (note 8)	---	(9,587)	---	(9,587)
Exchange differences	(53)	(278)	338	7
Closing net book amount	29,021	55,320	9,964	94,305
At 30 June 2014				
Cost	52,816	258,949	19,280	331,045
Accumulated depreciation and impairment	(23,795)	(203,629)	(9,316)	(236,740)
Net book amount	29,021	55,320	9,964	94,305

Non-current assets pledged as security
Refer to note 25(a) for information on non-current assets pledged as security by the consolidated entity.

(a) Impairment tests for land and buildings
In the prior year, as a result of the restructuring review undertaken across the Group and the subsequent impairment review of land and buildings, certain company owned buildings were written down to their recoverable amount being the amount for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. The recoverable amount of these assets were based on independent assessments by a third party. This resulted in a pre-tax impairment charge in respect of buildings which amounted to $15.0 million. This impairment charge was included within the other expenses line item in the income statement. As at 30 June 2014, no further impairment charge was required to be recognised.

Note 17. Non-current assets – Property, plant and equipment (continued)

(b) Impairment tests for furniture, fittings and equipment

In the prior year, as a result of the impairment review of furniture, fittings and equipment, certain assets relating to company owned retail stores were written down to their recoverable amount being their value-in-use. Value-in-use was assessed by reference to management's best estimate of the risk adjusted future earnings performance of each store over the remaining life of the lease. In addition, as a part of the strategic capital structure review a number of stores were closed during the prior year and further stores were flagged for closure in the future resulting in a write-off of non-reusable assets. This resulted in a pre-tax impairment charge in respect of furniture, fittings and equipment in various countries which amounted to $17.5 million. This impairment charge was included within the other expenses line item in the income statement. As at 30 June 2014, no further impairment charge was required to be recognised.

Note 18. Non-current assets – Intangible assets

	Goodwill	Indefinite life		Finite life	Total
		Brands	Other *		
	$'000	$'000	$'000	$'000	$'000
At 30 June 2012					
Cost	541,791	565,835	9,413	28,595	1,145,634
Accumulated amortisation and impairment	(153,313)	(182,417)	(2,422)	(11,582)	(349,734)
Net book amount	388,478	383,418	6,991	17,013	795,900
Year ended 30 June 2013					
Opening net book amount	388,478	383,418	6,991	17,013	795,900
Additions **	753	---	---	16,545	17,298
Adjustment to contingent consideration (note 28)	(13,007)	---	---	---	(13,007)
Disposals	---	---	(643)	(11)	(654)
Amortisation charge	---	---	---	(7,037)	(7,037)
Impairment charge (note (a))	(292,934)	(300,572)	(297)	(10,513)	(604,316)
Exchange differences	11,973	7,408	691	4,430	24,502
Closing net book amount	95,263	90,254	6,742	20,427	212,686
At 30 June 2013					
Cost	553,520	573,524	9,332	51,706	1,188,082
Accumulated amortisation and impairment	(458,257)	(483,270)	(2,590)	(31,279)	(975,396)
Net book amount	95,263	90,254	6,742	20,427	212,686

* Other indefinite life intangible assets relate to key money.
** Goodwill additions include other immaterial acquisitions.

Note 18. Non-current assets – Intangible assets (continued)

	Goodwill	Indefinite life		Finite life	Total
		Brands	Other *		
	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2014					
Opening net book amount	95,263	90,254	6,742	20,427	212,686
Additions	---	---	---	9,716	9,716
Disposal of discontinued operations (note 10)	---	(36,807)	---	(140)	(36,947)
Disposals	---	---	---	(168)	(168)
Amortisation charge	---	---	---	(9,837)	(9,837)
Impairment charge (note (a))	(24,858)	(4,040)	(357)	---	(29,255)
Fair value adjustment on reclassification of West 49 as held for sale during the year (note 8)	---	---	---	(1,797)	(1,797)
Exchange differences	(573)	(459)	105	193	(734)
Closing net book amount	69,832	48,948	6,490	18,394	143,664
At 30 June 2014					
Cost	441,955	525,240	9,501	55,833	1,032,529
Accumulated amortisation and impairment	(372,123)	(476,292)	(3,011)	(37,439)	(888,865)
Net book amount	69,832	48,948	6,490	18,394	143,664

* Other indefinite life intangible assets relate to key money.

Adjustment to contingent consideration on acquisitions which occurred pre 1 July 2009
Information about the adjustment to contingent consideration is provided in note 28.

Amortisation charge
Amortisation charge of $9.8 million (2013: $7.0 million) has been included in 'other expenses' in the income statement.

(a) Impairment tests for goodwill and brands

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to brands acquired or geographical regions where operations existed at the time goodwill arose. Brands are allocated to the Group's cash-generating units (CGUs) identified according to individual brands.

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

If the VIU of a CGU is lower than its carrying amount, then the CGU's fair value less costs of disposal (FVLCD) 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	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Von Zipper	---	---	1,187	1,187
Kustom	---	1,763	8,785	10,540
Honolua	409	7,090	4,385	4,385
Xcel	3,450	3,504	3,609	3,666
Tigerlily	---	---	2,470	2,470
Sector 9	---	13,663	7,280	9,704
DaKine	---	---	---	36,739
RVCA	61,592	62,554	21,232	21,563
New Zealand	4,381	6,689	---	---
	69,832	95,263	48,948	90,254

Note 18. Non-current assets – Intangible assets (continued)

(a) Impairment tests for goodwill and brands (continued)

As at 30 June 2014 and 2013, all of the above CGUs were tested for impairment in accordance with AASB 136. The Group has experienced declines in sales and profitability across a number of regions and brands and as a result impairment charges were recognised for the CGUs set out in the table below.

Impairment charge	Goodwill		Brands	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
Billabong	---	---	---	252,116
Element	---	850	---	28,630
Kustom	1,763	1,983	1,755	---
Palmers	---	---	---	5,113
Beachculture	---	---	---	853
Amazon	---	---	---	1,158
Xcel	---	8,027	---	---
Tigerlily	---	1,889	---	1,130
DaKine	---	69,736	---	11,572
Sector 9	13,521	12,958	2,285	---
RVCA	---	18,416	---	---
Honolua	6,605	---	---	---
Australia	---	57,473	---	---
New Zealand	2,969	2,178	---	---
North America	---	113,359	---	---
Europe	---	6,065	---	---
	24,858	292,934	4,040	300,572

(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 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% (2013: 15.1% and 16.3%).

EBITDA projections for regional CGUs with allocated goodwill are discounted using a pre-tax discount rate of 14.5%. (2013: 14.5%).

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

Note 18. Non-current assets – Intangible assets (continued)

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

	Average EBITDA Growth Rate FY14–FY18* %	Headroom** 2014 $'m	Discount rate 2014 %	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
30 June 2014							
Von Zipper	40.7	12.1	15.8	(0.9)	2.5	(0.7)	(1.2)
Honolua	33.8	---	16.3	(0.3)	2.5	(0.2)	(1.3)
Tigerlily	31.5	2.6	15.8	(0.5)	2.5	(0.4)	(2.3)
Sector 9	86.4	---	16.3	(0.6)	2.5	(0.4)	(2.9)
RVCA	38.0	84.7	15.8	(6.4)	2.5	(5.2)	(22.4)

The below 30 June 2013 key assumptions and sensitivities were based on the four year business plan at that point in time:

	Average EBITDA Growth Rate FY13–FY17* %	Headroom** 2013 $'m	Discount rate 2013 %	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
30 June 2013							
Von Zipper	9.8	13.5	15.8	(1.0)	2.5	(0.8)	(4.3)
Honolua	9.4	8.4	16.3	(0.7)	2.5	(0.5)	(2.3)
Tigerlily	39.5	---	15.8	(0.3)	2.5	(0.2)	(1.4)
New Zealand	11.8	---	14.5	(0.9)	2.5	(0.7)	(5.5)

* 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.

(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 (FVLCD). 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 key assumptions shown in the table below have been used in the calculations.

	Multiple	Headroom* $'m	Impact on headroom of -10% change in EBITDA $'m	Impact on headroom of a -1 times change in multiple $'m
30 June 2014				
Kustom	6.0	---	(1.1)	(2.3)
Xcel	6.0	0.9	(1.0)	(2.1)
New Zealand	5.0	---	(2.1)	(3.7)

	Multiple	Headroom* $'m	Impact on headroom of -10% change in EBITDA $'m	Impact on headroom of a -1 times change in multiple $'m
30 June 2013				
Kustom	7.0	---	(1.9)	(2.7)
Xcel	7.0	---	(1.2)	(1.7)
New Zealand	7.0	---	(3.5)	(5.0)
RVCA	7.0	---	(7.3)	(10.4)

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

Note 18. Non-current assets – Intangible assets (continued)

(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 2015 to 2018 business plan.

(e) Impairment tests for finite life intangibles

In prior year, as a result of the impairment review of finite life intangibles certain assets relating to software and systems were written down to their recoverable amount being their value-in-use and having regard to the future economic benefits that are likely to be generated from those assets. This resulted in a pre-tax impairment charge in respect of finite life intangibles in various countries which amounted to $10.5 million. This impairment charge was included within the other expenses line item in the income statement. As at 30 June 2014, no further impairment charge was required to be recognised.

Note 19. Non-current assets – Deferred tax assets

	2014 $'000	Restated 2013 $'000
The deferred tax assets balance comprises temporary differences attributable to:		
Trade and other receivables	576	10,931
Employee benefits	987	4,800
Inventories	976	9,921
Trade and other payables	609	8,048
Property, plant and equipment	8,685	14,998
Rights issue	1,926	1,491
Other	2,655	5,291
Tax losses	79	---
Finance lease liabilities	4,670	5,054
Cash flow hedges	308	80
Provisions	1,371	11,164
Deferred consideration	---	---
Total deferred tax assets	22,842	71,778
Set-off of deferred tax assets against deferred tax liabilities pursuant to set-off provisions (note 3 and 26)	(22,002)	(15,481)
Net deferred tax assets	840	56,297
Movements:		
Opening balance at 1 July	71,778	104,578
(Charged)/credited to the income statement (note 9)	(50,468)	(38,608)
Credited/(charged) to other comprehensive income (note 9)	450	1,571
Credited/(charged) to equity (note 9)	1,112	757
Disposal of discontinued operations	---	(1,375)
Adjustment to prior year tax	425	559
Exchange differences	(455)	4,296
Closing balance at 30 June	22,842	71,778
Deferred tax assets to be recovered after more than 12 months	22,721	28,436
Deferred tax assets to be recovered within 12 months	121	43,342
	22,842	71,778

Note 20. Non-current assets – Other

	2014 $'000	2013 $'000
Prepayments	2,704	868
Prepaid borrowing costs for facilities not drawn at 30 June	4,277	---
	6,981	868

Note 21. Current liabilities – Trade and other payables

	2014 $'000	2013 $'000
Trade payables	129,930	159,067
Other payables	53,927	80,857
Derivative financial liabilities (note 32)	1,830	303
	185,687	240,227

(a) Fair value and risk exposure

Due to the short-term nature of these payables, their carrying amount is assumed to approximate their fair value. Information about the Group's exposure to foreign exchange risk is provided in note 2.

(b) Other payables

As at 30 June 2014, there is no current deferred payments payable. As at 30 June 2013, included in other payables is deferred payments payable of $10.5 million relating to SDS/Jetty Surf and DaKine. Refer to note 28 for further information on deferred payments, including the non-current payable.

Note 22. Current liabilities – Borrowings

	2014 $'000	2013 $'000
Secured		
Syndicated facility	---	283,322
Drawdown facility	---	17,411
Total secured current borrowings	---	300,733
Unsecured		
Bank overdrafts	---	513
Bank loans	5,187	11,022
Lease liabilities (note 36)	2,171	1,582
Other loans	---	706
Total unsecured current borrowings	7,358	13,823
Total current borrowings	7,358	314,556

(a) Syndicated facility

In June 2013, the Group announced that it was in discussions with Altamont Capital Partners and Sycamore Partners regarding proposals presented to the Group for alternative refinancing and asset sale transactions, the proceeds of which would be used to repay in full the secured Syndicated Revolving Multi-Currency Facility and Drawdown Facility. As well, the deteriorating financial performance would have required waivers to prevent the Group breaching financial covenant thresholds contained in the agreements for the Syndicated Facility and Drawdown Facility as disclosed in note 25. As a result of these circumstances, amounts outstanding under these facilities at 30 June 2013 have been classified as current, notwithstanding that these facilities were due to expire in July 2014.

(b) Bank loans

Bank loans represent term loans at variable interest rates.

(c) Other loans

Other loans represent term loans with variable interest rates.

(d) Security and fair value disclosures

Details of the security relating to each of the secured liabilities, the fair value of each of the borrowings and further information on the bank loans are set out in note 25.

(e) Risk exposure

Details of the Group's exposures to risks arising from current and non-current borrowings are set out in note 2.

Note 23. Current liabilities – Current tax liabilities

	2014 $'000	2013 $'000
Income tax	4,179	1,740

As shown on the consolidated balance sheet the current tax receivable is $3.2 million (2013: $12.4 million).

Note 24. Current liabilities – Provisions

	2014 $'000	2013 $'000
Employee benefits	11,497	11,306
Nixon make good payment provision (note (a))	---	15,310
Provision for contingent tax liabilities (note (b))	---	7,808
Onerous lease/contract and restructuring provisions (note (c))	16,950	21,548
	28,447	55,972

(a) Nixon make good payment provision

On 23 July 2013 the Group entered into agreements with Nixon Investments, LLC and Trilantic Capital Partners (collectively "Nixon") to reduce the Group's commitment to purchase previously agreed volumes of product from Nixon over a four year period. The Group remeasured its onerous contract provisions based on the revised agreements.

The effect of these new agreements was to reduce the Group's commitment to purchase product from Nixon to US$9 million in the year ending 30 June 2014 and to have no further contractual commitment beyond that date. In exchange for the reduction in these purchase commitments, the Group has agreed to make good payments totalling US$14.2 million payable in the year ending 30 June 2014.

(b) Provision for contingent tax liabilities

During the year ended 30 June 2014 the provision for contingent tax liabilities (2013: $7.8 million) representing contingent liabilities recognised at fair value as part of the acquisition accounting for the Canadian retail chain West 49, was reversed given that any potential tax liability became statute barred.

(c) Onerous lease/contract 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.

The Group has also identified several onerous contracts. A provision has been recognised for the estimated minimum unavoidable costs under the contracts and the provision reflects the lower of the cost of fulfilling the contracts and any compensation or penalties arising from failure to fulfil the contracts.

Note 24. Current liabilities – Provisions (continued)

(d) Movements in provisions

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

2014	Contingent tax liabilities $'000	Onerous lease/contract and restructuring provisions $'000	Nixon make good payment provision $'000	Total $'000
Carrying amount at start of year	7,808	21,548	15,310	44,666
Additional provisions recognised	---	8,368	---	8,368
Unused amounts reversed	(7,708)	(1,162)	---	(8,870)
Amounts used during the year	---	(17,602)	(15,463)	(33,065)
Reclassification from non-current to current	---	5,816	---	5,816
Exchange differences	(100)	(18)	153	35
Carrying amount at end of year	---	16,950	---	16,950

Note 25. Non-current liabilities – Borrowings

	2014 $'000	2013 $'000
Secured		
Term loan facility	207,576	---
Total secured non-current borrowings	207,576	---
Unsecured		
Lease liabilities (note 36)	4,457	5,916
Total unsecured non-current borrowings	4,457	5,916
Total non-current borrowings	212,033	5,916

2014

Centerbridge / Oaktree Consortium ("C/O Consortium") Term Loan facility
On 23 August 2013 the Company confirmed that it had received a refinancing proposal from Centerbridge Partners and Oaktree Capital (the "Centerbridge/Oaktree Consortium"). On 19 September 2013 the Company announced that it had entered binding agreements with the C/O Consortium in relation to a long term financing to recapitalise the Company and provide a stronger balance sheet and capital structure to allow it to stabilise the business, address its cost structure, and pursue a growth strategy.

Term loan
The C/O Consortium proposal included senior secured term loan funding of up to US$360 million. The facility term is six years (with a final maturity date of 16 September 2019). 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) and has a single financial covenant (in respect of leverage) which will first be tested on 31 December 2014.

The facility is subject to prepayment premiums, where in the event of early repayment of any amount 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. There was no prepayment premiums for the $174 million that was repaid by way of the equity raising (specifically the issue of the $135 million placement to the C/O Consortium and the $50 million rights offering referred to in note 29).

On 4 November 2013 the Company announced that a US$300 million tranche of the new term loan facility had been funded on 1 November 2013. The new term loan was used in part by the Company to replace the US$294 million bridge loan facility provided by the Altamont Capital Partners and entities sub-advised by GSO Capital Partners (together with Altamont the "Altamont Consortium"), as well as pay the $6 million break fee in respect of the revised commitment letter executed with the Altamont Consortium.

Note 25. Non-current liabilities – Borrowings (continued)

At 31 December 2013 the Company had drawn in full the US$360 million term loan facility.

On 30 January 2014 shareholders voted to support the strengthening of the Company's balance sheet by approving the issue of $135 million of ordinary equity to the C/O Consortium in order to reduce debt and provide a stronger financial platform for the turnaround plan outlined by the Company's CEO Neil Fiske at the AGM on 10 December 2013. On 6 February 2014 $135 million of ordinary equity at $0.41 per share was issued resulting in the issuance of 329,268,294 shares to the C/O Consortium with the proceeds subsequently used to pay down the term loan.

In March 2014 a further $34.7 million (US$31.5 million) was paid down on the term loan by way of part of proceeds of the $50 million rights offering.

At 30 June 2014 the Group had $216.3 million (US$203.8 million) of borrowings under the term loan, offset by prepaid borrowing costs of $8.7 million.

General Electric Capital Corporation ("GE Capital") ABL facility
Asset-Based Revolver and Letter of Credit sub-facility
On 16 December 2013 the asset-based multi-currency revolving credit facility of up to US$100 million arranged by GE Capital was agreed and the first drawdowns were made on this date. The revolving credit facility was used to refinance prior indebtedness and to provide support for working capital, capital expenditures and other general corporate purposes of the Company. Whilst the facility limit is US$100 million, 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 2014 the amount available for drawing was US$59.5 million.

The facility incurs interest at a variable rate plus 2% margin. The facility term is five years. The size of the facility had been reduced from up to US$140 million, in part due to the sale of West 49 that was announced on 4 November 2013.

At 30 June 2014 the Group had no borrowings drawn on the asset-based multi-currency revolving credit facility, but US$12.3 million letters of credit were outstanding under the Letter of Credit sub-facility.

Altamont Capital Partners and entities sub-advised by GSO Capital Partners (together with Altamont the "Altamont Consortium") Bridge facility
On 16 July 2013 the Company announced it had entered into agreements with entities advised by Altamont Capital Partners and entities sub-advised by GSO Capital Partners (together with Altamont the "Altamont Consortium") in relation to its funding arrangements and other matters. The arrangements included:

- A US$294 million ($325 million) bridge loan facility to mature on 31 December 2013 ("Bridge Facility"), which would incur interest of 12.0% per annum and was intended to be refinanced by the long term financing described in the following paragraph.
- Commitment letters with the Altamont Consortium and GE Capital to provide a long term financing for the Group by way of an Altamont Consortium term loan, including a US$40 million convertible tranche, and a commitment with GE Capital for an asset-based multi-currency revolving credit facility of up to US$160 million ($177 million), subject to holding sufficient eligible accounts receivable and inventory as collateral.
- The sale of the DaKine brand to Altamont for a purchase price of $70 million ("Asset Sale").
- The issue of 84,519,582 options to the Altamont Consortium, amounting to 15% of the fully diluted share capital of the Company (including the options). The options were to be exercisable at the election of the Altamont Consortium at a strike price of $0.50 per share. The options were to be granted in multiple tranches, with the first tranche of options (42,259,790) issued on 16 July 2013 with an expiry date of 16 July 2020.

On 21 August 2013 the Takeovers Panel announced that as a result of certain revisions made to the original documents entered into with the Altamont Consortium, the Panel decided not to make a declaration of unacceptable circumstances in response to the application made by Centerbridge Partners and Oaktree Capital.

On 21 August 2013 the Company entered into a revised commitment letter and certain other ancillary transaction documents (together, the "Revised Transaction Documents") with the Altamont Consortium which resulted in the following arrangements:

- No change to the term of the Bridge Facility which was to mature on 31 December 2013. The Bridge Facility would incur interest of 12.0% per annum and was intended to be refinanced by the amended long term financing described below.

Note 25. Non-current liabilities – Borrowings (continued)

- A revised commitment letter with the Altamont Consortium to provide a long term financing for the Group by way of a term loan of US$310 million ($343 million) (“Term Loan”), made up of a base commitment of US$275 million ($304 million) and an upsize commitment of US$35 million ($39 million). Interest payable on the US$275 million base commitment would be 15.0% per annum, payable quarterly, of which not less than 7.0% would be paid in cash and up to 8.0% paid in kind (“PIK”). Interest payable on the US$35 million upsize commitment would be 10.0% per annum, payable quarterly in cash. The Term Loan would have a single financial covenant (in respect of leverage) which would first be tested on 31 December 2014.
- Agreement that the Altamont Consortium would take up US$60 million ($66 million) of Redeemable Preference Shares ("RPS") with a 0% coupon, subject to shareholder approval. The proceeds of the subscription by the Altamont Consortium for the RPS would be applied towards the prepayment of the term loan, with no make whole premium. The RPS would convert to fully paid ordinary shares in the Company at a strike price of approximately US$0.207 ($0.228) per share, representing 33.3% of the fully diluted shares expected to be outstanding (including options and the RPS). In lieu of subscribing for RPS, the Company and the Altamont Consortium could agree that the Altamont Consortium would subscribe for Convertible Notes having the same terms as a RPS except that any such Convertible Notes would not have any voting or participation rights.
- The issue of 44.9 million options to the Altamont Consortium. These would be in addition to the options issued on 16 July 2013. The options would be exercisable at the election of the Altamont Consortium at a strike price of $0.01 per share. The remaining options to be issued would be granted in two tranches, with the next tranche of 29.6 million options issued upon the execution of the Term Loan. The balance of the options would be issued following Shareholder approval. The options would expire seven years from the date of grant of each tranche.

The revised commitment letter executed with the Altamont Consortium for the long term financing was an exclusive commitment. The commitment letter and the commitments it provided were to terminate on the earlier of closing of an alternate financing (which would result in the payout of the Bridge Facility by parties other than the Altamont Consortium) and 31 December 2013 (the "Termination Date"). The exclusivity period was for the period until the Termination Date.

The revised Altamont arrangements described above were paid out in full with the proceeds of the C/O Consortium funding announced on 19 September 2013 as outlined above.

2013

Syndicated facility

As at 30 June 2012 the Group had an unsecured Syndicated Revolving Multi-Currency Facility with a limit of US$577.0 million (US$182.0 million due for roll-over on or prior to 28 July 2013 with the remaining US$395.0 million due for roll-over on or prior to 28 July 2014).

In June 2012, the Group renegotiated its banking covenants and undertook to partially repay and partially cancel the Syndicated Revolving Multi-Currency Facility with the proceeds received from the rights issue announced on 21 June 2012. As at 1 August 2012 following the cancellation of certain facility limits the Group had an unsecured Syndicated Revolving Multi-Currency Facility with a limit of US$384.5 million which was due for roll over on or prior to 28 July 2014.

On 3 February 2013 the Group granted the financiers of the Syndicated Revolving Multi-Currency Facility and the Multi-Currency Drawdown facility collectively the right to take security over at least 80% of the Group’s total assets and 85% of EBITDA in support of the financing facilities in exchange for an amendment to the Consolidated Shareholders’ Funds covenant which would otherwise have been breached at 31 December 2012 as a result of the impairment charges taken in the 31 December 2012 accounts. This amendment to the covenant had effect from 31 December 2012 and thereafter.

On 8 April 2013 the Group finalised the partial cancellation of the Syndicated Revolving Multi-Currency Facility following the receipt of final taxation rulings in respect of the partial sale of the Nixon business on 16 April 2012. As at 8 April 2013 the Group had a secured Syndicated Revolving Multi-Currency Facility with a limit of US$344.5 million which was due for roll over on or prior to 28 July 2014.

On 4 June 2013 the Group announced that it was in separate discussions with Altamont Capital Partners and Sycamore Partners regarding proposals presented to the Group for alternative refinancing and asset sale transactions, the proceeds of which would be used to repay in full the secured Syndicated Revolving Multi-Currency Facility. On 16 July 2013 the Group announced that it had entered into agreements with Altamont Capital Partners which would allow the Group to fully repay the secured Syndicated Revolving Multi-Currency Facility.

Note 25. Non-current liabilities – Borrowings (continued)

The deteriorating financial performance would have required waivers to prevent the Group breaching financial covenant thresholds contained in the agreements for the Syndicated Revolving Multi-Currency Facility and as a result the Group has classified $283.3 million of borrowings as current liabilities notwithstanding that at balance date the maturity date of the facility was 28 July 2014.

Multi-Currency Drawdown facility
As at 30 June 2012 the Group had an unsecured Multi-Currency Drawdown Facility with a limit of US$78.0 million which was due for roll-over on or prior to 28 July 2013.

In June 2012, the Group renegotiated its banking covenants and undertook to partially repay and partially cancel the Multi-Currency Drawdown Facility with the proceeds received from the rights issue announced on 21 June 2012. As at 1 August 2012 following the cancellation of certain facility limits the Group had an unsecured Multi-Currency Drawdown Facility with a limit of US$52.0 million which was due for roll over on or prior to 28 July 2013.

On 31 December 2012 the Group rolled-over US$42.0 million of the US$52.0 million Multi-Currency Drawdown Facility to 28 July 2014.

On 3 February 2013 the Group granted the financiers of the Multi-Currency Drawdown Facility and the Syndicated Revolving Multi-Currency Facility collectively the right to take security over at least 80% of the Group's total assets and 85% of EBITDA in support of the financing facilities in exchange for an amendment to the Consolidated Shareholders' Funds covenant which would have otherwise been breached at 31 December 2012 as a result of the impairment charges taken in the 31 December 2012 accounts. This amendment to the covenant had effect from 31 December 2012 and thereafter.

On 8 April 2013 the Group finalised the partial cancellation of the Multi-Currency Drawdown Facility following the receipt of final taxation rulings in respect of the partial sale of the Nixon business on 16 April 2012. As at 8 April 2013 the Group had a secured Multi-Currency Drawdown Facility with a limit of US$47.0 million of which US$10 million was due for roll over on or prior to 28 July 2013 and US$37.0 million was due for roll over on or prior to 28 July 2014.

On 4 June 2013 the Group announced that it was in separate discussions with Altamont Capital Partners and Sycamore Partners regarding proposals presented to the Group for alternative refinancing and asset sale transactions. On 16 July 2013 the Company announced a range of measures in relation to its funding arrangements including a new bridging facility maturing 31 December 2013 to repay its existing Syndicated Revolving Multi-Currency Facility and various commitments to establish new long term funding arrangements. As part of those arrangements it was agreed with the financier of the Multi-Currency Drawdown Facility that the maturity date for that facility would be changed to 31 December 2013.

The deteriorating financial performance would have required waivers to prevent the Group breaching financial covenant thresholds contained in the agreements for the Multi-Currency Drawdown Facility and as a result the Group had classified $17.4 million of borrowings as current liabilities notwithstanding that at balance date the maturity date for US$37 million of the facility was 28 July 2014.

(a) Assets pledged as security

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

	2014 $'000	2013 $'000
Current		
Cash and cash equivalents	125,318	89,310
Trade and other receivables	123,977	158,192
Inventories	135,000	210,801
Current tax receivables	2,562	10,851
Other	8,953	17,210
Total current assets pledged as security	395,810	486,364
Non-current		
Receivables	4,005	2,299
Property, plant and equipment	83,320	104,557
Intangible assets	135,516	205,027
Deferred tax assets	---	39,726
Other	2,615	69
Total non-current assets pledged as security	225,456	351,678
Total assets pledged as security	621,266	838,042

Note 25. Non-current liabilities – Borrowings (continued)

(a) Assets pledged as security (continued)

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 of its assets and properties in favour of their financiers, including the financiers and other secured parties under the aforementioned facilities. The assets and properties over which the security interests were granted include the real properties of GSM Rocket Australia Pty Ltd and Burleigh Point, Ltd in Queensland and Hawaii respectively, the shares held by Billabong International Limited and GSM (Operations) Pty Ltd in certain entities and intellectual property owned by the relevant Billabong entities. 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.

(b) Financing arrangements

	2014 $'000	2013 $'000
Credit standby arrangements		
Total facilities		
Bank overdrafts and at-call facilities	2,403	12,124
Trade finance facilities	17,883	49,728
Cash advance and other facilities	269,753	428,207
	290,039	490,059
Used at balance date		
Bank overdrafts and at-call facilities	---	513
Trade finance facilities	16,325	37,489
Cash advance and other facilities	216,969	302,674
	233,294	340,676
Unused at balance date		
Bank overdrafts and at-call facilities	2,403	11,611
Trade finance facilities	1,558	12,239
Cash advance and other facilities	52,784	125,533
	56,745	149,383
Bank loan facilities		
Total facilities	14,199	14,841
Used at balance date	5,187	11,022
Unused at balance date	9,012	3,819

Trade finance facilities, utilised by the Group for the provision of letters of credit to suppliers, may be drawn upon at any time and may be terminated by the bank at any time by way of written notice. Subject to no event of default, the Group may draw down on the syndicated and drawdown facilities at any time over the term of the facilities.

(c) Risk exposure

Information about the Group's exposure to interest rate and foreign currency changes is provided in note 2.

Note 25. Non-current liabilities – Borrowings (continued)

(d) Fair value

For the majority of the borrowings, 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. Material differences are identified only for the following borrowings:

	2014		2013	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
On-balance sheet				
Lease liabilities (current and non-current)	6,628	6,187	7,498	6,816
Term loan facility	207,576	216,306	---	---
	214,204	222,493	7,498	6,816

All other fair values equal the carrying values of borrowings.

The fair value of non-current borrowings is based on market prices where a market exists, or determined by discounting expected future cash flows using a current market interest rate that is adjusted for own credit risk. The fair values are classified as level 3 fair values due to the use of unobservable inputs, including own credit risk.

Note 26. Non-current liabilities – Deferred tax liabilities

	2014 $'000	Restated 2013 $'000
The deferred tax liabilities balance comprises temporary differences attributable to:		
Trade and other receivables	639	555
Property, plant and equipment	7,523	6,176
Prepayments	6,133	5,424
Other	682	206
Intangible assets – brands (note 3)	6,993	2,386
Cash flow hedges	32	734
Total deferred tax liabilities	22,002	15,481
Set-off of deferred tax assets pursuant to set-off provisions (note 3 and 19)	(22,002)	(15,481)
Net deferred tax liabilities	---	---
Movements:		
Opening balance at 1 July (note 3)	15,481	32,665
(Credited)/charged to the income statement (note 9)	7,076	(18,747)
Charged to other comprehensive income (note 9)	(573)	336
Adjustment to prior year tax	---	(319)
Exchange differences	18	1,546
Closing balance at 30 June	22,002	15,481
Deferred tax liabilities to be settled after more than 12 months (note 3)	21,098	12,765
Deferred tax liabilities to be settled within 12 months	904	2,716
	22,002	15,481

Note 27. Non-current liabilities – Provisions and payables

	2014 $'000	2013 $'000
Employee benefits	8,230	5,481
Derivative financial liabilities (note 32)	9,054	12,922
Onerous lease/contract and restructuring provisions (note (a))	8,071	14,458
Other	6,215	8,233
	31,570	41,094

(a) Onerous lease/contract 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.

The Group has also identified several onerous contracts. A provision has been recognised for the estimated minimum unavoidable costs under the contracts and the provision reflects the lower of the cost of fulfilling the contracts and any compensation or penalties arising from failure to fulfil the contracts.

(b) Movements in provisions

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

2014	**Onerous lease/contract and restructuring provisions** $'000
Carrying amount at start of year	14,458
Additional provisions recognised	2,633
Unused amounts reversed	(2,826)
Amounts used during the year	(477)
Reclassification from non-current to current	(5,816)
Exchange differences	99
Carrying amount at end of year	8,071

Note 28. Deferred payments

	2014 $'000	2013 $'000
RVCA	23,556	39,287
SDS/Jetty Surf	---	8,433
	23,556	47,720

Included in note 21 'other payables' is deferred payments payable as at 30 June 2013 of $10.5 million relating to SDS/Jetty Surf and DaKine. As at 30 June 2014 there is no current deferred payments payable.

SDS/Jetty Surf
The second and final pre-determined deferred payment for SDS/Jetty Surf which was non-current as at 30 June 2013 was prepaid during the 2013-14 financial year. No further amounts are due in relation to this acquisition.

RVCA
A new contract with Pat Tenore, the founder of RVCA, has been entered into during the year ended 30 June 2014. The financial aspects of the agreed contractual extension include:

1. An amendment to the 2015 earn out arrangements which were negotiated as part of the original acquisition in 2010 including the prepayment of US$20.0 million of deferred consideration (refer note 38) and the forgiveness of US$7.5 million of loans which would have otherwise been receivable coinciding with the 2015 earn out arrangements;
2. A performance related component for the period to 2018; and
3. The issue of 1,200,000 ten year options in Billabong International Limited exercisable at $0.60.

The non-current deferred payment was recalculated during the year ended 30 June 2014 taking into account the latest Board approved forecasts and the aforementioned amendment to the 2015 earn out arrangements. This resulted in an increase of approximately US$5.1 million (2013: decrease of approximately US$1.0 million) in the underlying USD payable relating to RVCA which has been recognised in the income statement being US$7.5 million of aforementioned loan forgiveness partially offset by a US$2.4 million adjustment taking into account the latest Board approved forecasts. This US$5.1 million or $5.9 million has been included as a significant item given its nature is outside of normal trading. Refer to note 8.

The split between guaranteed and contingent consideration for RVCA is as follows:

	2014 $'000	2013 $'000
Guaranteed deferred consideration	7,847	20,001
Contingent deferred consideration (refer note 2)	15,709	19,286
	23,556	39,287

As part of the RVCA deferred consideration arrangement the remaining loan receivable of $2.7 million (following the loan forgiveness mentioned above) as at 30 June 2014 (2013: $10.9 million) can be offset in the balance sheet as there is an intention to settle this loan receivable and the deferred consideration payable on a net basis.

	Gross amounts	Gross amounts set off in the balance sheet	Net amounts presented in the balance sheet
2014	$'000	$'000	$'000
Non-current deferred consideration payable	26,303	(2,747)	23,556
2013			
Non-current deferred consideration payable	50,160	(10,873)	39,287

As at 30 June 2014 and 30 June 2013 the deferred consideration relating to all acquisitions has been fully recognised at present value taking into account the latest Board approved forecasts. Refer to note 35.

Note 29. Contributed equity

	Notes	2014 Shares '000	2013 Shares '000	2014 $'000	2013 $'000
(a) Share capital					
Ordinary shares					
Fully paid	(b),(c)	990,370	478,944	1,091,323	907,885
Other equity securities	(d)	---	---	2,951	2,951
Total contributed equity		990,370	478,944	1,094,274	910,836

(b) Movements in ordinary share capital

2013 Date	Details	Notes	Number of shares	$'000
1 July 2012	Opening balance		410,969,573	840,317
26 July 2012	Rights issue	(f)	67,974,719	69,334
				909,651
	Less: Transaction costs arising on rights issue	(f)		(2,523)
	Deferred tax credit recognised directly in equity	(f)		757
30 June 2013	Balance		478,944,292	907,885

2014 Date	Details	Notes	Number of shares	$'000
1 July 2013	Opening balance		478,944,292	907,885
10 January 2014	CEO Sign-on bonus	(g)	1,785,714	500
6 February 2014	C/O Placement	(h)	329,268,294	135,000
6 March 2014	Rights issue- Institutional component	(i)	68,022,391	19,078
31 March 2014	Rights issue- Retail component	(i)	112,349,343	31,426
				1,093,889
	Less: Transaction costs arising on rights issue	(i)		(3,666)
	Deferred tax credit recognised directly in equity	(i)		1,100
30 June 2014	Balance		990,370,034	1,091,323

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

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

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(d) Other equity securities

The amount shown for other equity securities is the value of the options issued in relation to the Element acquisition.

(e) Executive performance share plan

The Billabong Executive Performance Share Plan – Australia trust and the Billabong Executive Performance Share Plan trust holds 3,694,577 (2013: 4,344,668) shares on issue at the end of the year. Refer to note 45 for further information.

Note 29. Contributed equity (continued)

(f) 2013 Rights issue

Retail Entitlement Offer
On 29 June 2012 the Company invited eligible retail shareholders to participate in an accelerated non-renounceable pro-rata entitlement offer to subscribe for 6 new ordinary shares for every 7 existing ordinary shares at an issue price of $1.02 per new share with such shares to be issued on, and rank for dividends after 27 July 2012. As a result, 68.0 million new shares were issued, resulting in gross cash proceeds of $69.3 million. The entitlement offer was fully underwritten by Goldman Sachs Australia Pty Ltd and Deutsche Bank AG, Sydney Branch.

Expenses Arising From 2013 Rights Issue
Costs incurred in relation to the rights issue up to and including 30 June 2013 were $2.5 million ($1.8 million net of deferred tax credits recognised directly in equity). Directly attributable equity raising costs incurred have been recognised net of any tax effects directly in equity, and therefore do not impact earnings for the years ended 30 June 2013.

(g) CEO Sign-on bonus

On 10 December 2013 shareholders voted to issue the Company's CEO, Neil Fiske, shares pursuant to the sign-on bonus provisions of Mr. Fiske's employment contract with the Group. The sign-on arrangement was in recognition of some of the income forgone or costs incurred on departing his previous role outside of the Group. Mr Fiske was paid a Sign-on bonus comprised of:

- $250,000 cash (less tax); and
- $250,000 to subscribe for shares in the Company at the same price as the 2014 Rights issue to Shareholders ($0.28 per share). Mr Fiske separately invested $250,000 in the Company's shares from his own funds.

On 10 January 2014 $500,000 of ordinary equity at $0.28 per share was issued resulting in the issuance of 1,785,714 shares to Mr Fiske.

Shares issued to Mr Fiske are subject to escrow for the period commencing on the date of issue of such shares and ending on 10 January 2016.

This bonus includes a share-based payment component, which has been recognised in the option reserve (refer to note 30(b)).

(h) 2014 C/O Placement

On 30 January 2014 shareholders voted to support the strengthening of the Company's balance sheet by approving the issue of $135 million of ordinary equity to the C/O Consortium in order to reduce debt and provide a stronger financial platform for the turnaround plan outlined by the Company's CEO Neil Fiske at the AGM on 10 December 2013. On 6 February 2014 $135 million of ordinary equity at $0.41 per share was issued resulting in the issuance of 329,268,294 shares to the C/O Consortium with the proceeds subsequently used to pay down the term loan.

Shares issued to the C/O Consortium on exercise of the Options and under the Placement are subject to escrow for the period commencing on the date of issue of such shares and ending on 19 September 2015.

(i) 2014 Rights issue

Retail/Institutional Entitlement Offer
On 26 February 2014 the Company announced a non-underwritten pro-rata accelerated renounceable entitlement offer to subscribe for 3 new ordinary shares for every 8 existing ordinary shares at an issue price of $0.28 per new share with such shares to be issued on, and rank for dividends after 1 April 2014. As a result, 180.4 million new shares were issued, resulting in gross cash proceeds of $50.5 million.

Expenses Arising From 2014 Rights Issue
Costs incurred in relation to the rights issue up to and including 30 June 2014 were $3.7 million ($2.6 million net of deferred tax credits recognised directly in equity). Directly attributable equity raising costs incurred have been recognised net of any tax effects directly in equity, and therefore do not impact earnings for the year ended 30 June 2014.

Note 29. Contributed equity (continued)

(j) C/O Options

On 19 September 2013 the Company announced that it had agreed to issue 29,581,852 options ("the Options") to the C/O Consortium upon funding of the new term loan.

The Options will be exercisable at the election of the C/O Consortium at a strike price of $0.50 per share 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. On 3 December 2013 the Company granted the Options to the C/O Consortium, following receipt by the C/O Consortium of approval from the Foreign Investment Review Board.

The options have not been exercised as at 30 June 2014.

The fair value of these options were recognised within prepaid borrowing costs which netted off against the Term loan facility carrying balance included in non-current borrowings (note 25).

(k) Altamont Options

On 16 July 2013 the Company announced that it had agreed to issue 42,259,790 options to the Altamont Consortium.

The options are exercisable at the election of the Altamont Consortium at a strike price of $0.50 per share 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. On 16 July 2013 the Company granted the options to the Altamont Consortium.

The options have not been exercised as at 30 June 2014.

The fair value of these options has been expensed in borrowing costs as a significant item for the year ended 30 June 2014.

Note 29. Contributed equity (continued)

(l) Capital risk management

The Group's policy is to maintain a strong capital base so as to preserve investor, creditor and market confidence and to sustain the future development of the business.

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.

During 2014, the Group's strategy, which was unchanged from 2013, was to maintain an appropriate gearing ratio for the Group. Consistent with this strategy, in 2014 the Group raised $135.0 million via the C/O placement and $50.5 million via the 2014 Rights issue which was used to reduce the amount of outstanding drawn debt.

The gearing ratios at 30 June 2014 and 30 June 2013 were as follows:

	Notes	**2014 $'000**	Restated 2013 $'000
Total borrowings	22, 25	219,391	320,472
Less: cash and cash equivalents	11	(145,070)	(113,837)
Net debt		74,321	206,635
Total equity		259,036	312,067
Total capital		333,357	518,702
Gearing ratio		22%	40%

The decrease in the gearing ratio during 2014 resulted primarily from the aforementioned repayment of debt.

In the year ended 30 June 2014 Billabong International Limited complied with the financial covenants of its borrowing facilities.

In regard to the year ended 30 June 2013, as a result of the impairment charges in the half year ended 31 December 2012, the Group would have breached its Consolidated Shareholders' Funds covenant with respect to its major banking facilities as at 31 December 2012. Subsequent to 31 December 2012, the Group's financiers agreed to an amendment to this covenant with effect from 31 December 2012 and thereafter. As at 30 June 2013 the deteriorating financial performance would have required waivers to prevent the Group breaching financial covenant thresholds contained in the agreements for the Syndicated Revolving Multi-Currency Facility. During the period the Company refinanced its debt requirements and raised significant additional equity.

Note 30. Treasury shares, reserves and retained (losses)/profits

	2014 $'000	2013 $'000
(a) Treasury shares	(22,508)	(24,861)
Movement:		
Balance 1 July	(24,861)	(27,935)
Treasury shares held by employee share plan trusts	---	(2,737)
Employee share scheme issue	2,353	5,811
Balance 30 June	(22,508)	(24,861)

Treasury shares are shares in Billabong International Limited that are held by the Billabong Executive Performance Share Plan – Australia trust and the Billabong Executive Performance Share Plan trust for the purpose of issuing shares under the Billabong Executive Performance Share Plan (see note 45 for further information).

Date	Details	Number of shares
1 July 2012	Balance	2,662,810
	Acquisition of shares by the employee share plan trusts	2,426,699
	Employee share scheme issue	(744,841)
30 June 2013	Balance	4,344,668
	Acquisition of shares by the employee share plan trusts	---
	Employee share scheme issue	(650,091)
30 June 2014	Balance	3,694,577

	2014 $'000	2013 $'000
(b) Reserves		
Option reserve	10,760	5,211
Other reserves		
Foreign currency translation reserve	(98,793)	(97,530)
Cash flow hedge reserve	(3,178)	(3)
Total other reserves	(101,971)	(97,533)
Other equity reserve	(9,244)	(9,244)
Total reserves	(100,455)	(101,566)

Note 30. Treasury shares, reserves and retained (losses)/profits (continued)

(b) Reserves (continued)

	2014 $'000	2013 $'000
Movements in reserves:		
Option reserve		
Balance 1 July	5,211	9,375
Share-based payment (income)/expense	(276)	1,647
Employee share scheme issue	(2,353)	(5,811)
Fair value of options in respect of recapitalisation option issues	7,839	---
Option reserve in respect of sign-on issues	339	---
Balance 30 June	10,760	5,211
Foreign currency translation reserve		
Balance 1 July	(97,530)	(115,395)
Net investment hedge	(10,751)	22,888
Foreign currency translation reserve reclassified to income statement	3,359	13,812
Currency translation differences arising during the year	6,129	(18,835)
	(98,793)	(97,530)
Cash flow hedge reserve		
Balance 1 July	(3)	(1,006)
Revaluation - gross	(1,801)	2,960
Deferred tax	587	(1,021)
Transfer to inventory - gross	(2,997)	(1,495)
Deferred tax	1,039	513
Effect of exchange rate changes	(3)	46
Balance 30 June	(3,178)	(3)
Other equity reserve		
Balance 1 July	(9,244)	(26,706)
Put/call option in relation to acquisition of non-controlling interest	---	17,462
Transactions with non-controlling interest	---	---
Balance 30 June	(9,244)	(9,244)

(c) Retained (losses)/profits

Movements in retained (losses)/profits were as follows:

	2014 $'000	Restated 2013 $'000
Balance 1 July	(467,575)	391,966
Net loss for the year	(233,712)	(859,541)
Dividends (note 31)	---	---
Balance 30 June	(701,287)	(467,575)

Note 30. Treasury shares, reserves and retained (losses)/profits (continued)

(d) Nature and purpose of 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;
- the issue of shares held by the Billabong Executive Performance Share Plan – Australia trust and the Billabong Executive Performance Share Plan trust to employees; and
- shares purchased for Short Term Incentive deferral.

Foreign currency translation reserve
Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d).

Cash flow hedge reserve
The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(o). Amounts are recognised in the income statement when the associated hedged transaction affects profit and loss.

Other equity reserve
At 30 June 2014 this reserve is in relation to the symmetrical put and call options at the present value of the expected redemption amount for the acquisition of the non-controlling interest of Surfstitch Pty Ltd.

Note 31. Dividends

The Board has not declared an interim ordinary dividend for the year ended 30 June 2014 and nor for the year ended 30 June 2013.

The Dividend Reinvestment Plan (DRP) remains suspended.

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.

(a) Franked dividends

The franked portions of future dividends recommended after 30 June 2014 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2014.

	Parent entity	
	2014	2013
	$'000	$'000
Franking credits available for subsequent financial years to the equity holders of the parent entity based on a tax rate of 30% (2013: 30%)	---	---

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:
(a) franking credits that will arise from the payment of the amount of the provision for income tax;
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

As the Board has not declared a final ordinary dividend for the year ended 30 June 2014, there is no impact on the franking account in relation to dividends recommended but not recognised as a liability at year end (2013: Nil).

Note 32. Derivative financial instruments

	Notes	2014 $'000	2013 $'000
Current assets			
Forward foreign exchange contracts – cash flow hedges	14	91	3,185
Total current derivative financial instrument assets		91	3,185
Current liabilities			
Forward foreign exchange contracts – cash flow hedges	21	1,830	303
Total current derivative financial instrument liabilities		1,830	303
Non-current liabilities			
Other derivative liability	27	9,054	12,922
Total non-current derivative financial instrument liabilities		9,054	12,922
Net derivative financial instruments		(10,793)	(10,040)

2014

During the year ended 30 June 2014 the other derivative liability relating to the acquisition of the non-controlling interest of Surfstitch Pty Ltd was restated taking into account the latest Board approved forecasts. This resulted in a non-cash credit to the income statement totalling $4.5 million. This will only become a cash item if and when the put and call options under the relevant agreements are exercised in future periods. Refer to note 41 Events Occurring After the Balance Sheet Date for more information.

2013

During the year ended 30 June 2013 the other derivative liability related to the symmetrical put and call options relating to the acquisition of the non-controlling interest of Surfstitch Pty Ltd and Surfstitch (Europe) Pty Ltd. was restated taking into account the following:

- Renegotiation of the put and call options relating to Surfstitch Pty Ltd resulting in a change to the timing of exercise dates for the options and linking a portion of the value of these options to the continuing employment of certain employees of the Surfstitch Pty Ltd business;
- Renegotiation of the put and call option relating to Surfstitch (Europe) Pty Ltd resulting in a change to the option by linking all of value of this option to the continuing employment of certain employees of the Surfstitch (Europe) Pty Ltd business; and
- Latest four year business plan forecast.

In accordance with Australian Accounting Standards, the Company is required to recognise through the income statement any deemed compensation expense attached to the above options in respect of employees who are required to remain in the business until the option exercise date.

The above resulted in a non-cash charge to the income statement totalling $12.3 million. This will only become a cash item if and when the put and call options under the relevant agreements are exercised in future periods.

(a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 2).

(i) Forward exchange contracts – cash flow hedges – product purchases
From time to time and in order to protect against exchange rate movements, the Group enters into forward exchange contracts to purchase USD, EUR 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.

Note 32. Derivative financial instruments (continued)

(a) Instruments used by the Group (continued)

The cash flows are expected to occur at various dates within one year from the balance date. At balance date, the details of outstanding contracts are:

	Buy USD		Average exchange rate	
	2014 US$'000	2013 US$'000	**2014**	2013
0 – 6 Months				
Sell Euro	21,500	11,020	1.3586	1.3208
Sell AUD	18,835	14,600	0.8964	1.0375
Sell BRL	900	1,550	0.4344	0.4844
Sell CAD	7,342	14,476	0.9021	0.9968
Sell Yen	2,645	2,050	0.0102	0.0123
Sell ZAR	2,280	999	0.0927	0.1010
Sell NZD	450	---	0.8228	---
6 – 12 Months				
Sell Euro	15,500	---	1.3569	---
Sell BRL	---	350	---	0.4742
Sell Yen	5,000	6,456	0.0098	0.0103
Sell NZD	100	---	0.8323	---

	Buy Euro		Average exchange rate	
	2014 EUR'000	2013 EUR'000	**2014**	2013
0 – 6 Months				
Sell USD	1,400	---	0.7218	---

	Buy AUD		Average exchange rate	
	2014 AU$'000	2013 AU$'000	**2014**	2013
0 – 6 Months				
Sell NZD	3,600	3,920	0.9142	0.7879
6 – 12 Months				
Sell NZD	500	700	0.9102	0.8194

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

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flow occurs, the Group adjusts the initial measurement of the inventory recognised in the balance sheet by the related amount deferred in equity.

At balance date these contracts were net liability of $1.7 million (2013: net assets of $2.9 million).

(ii) Hedge of net investment in foreign entity
The foreign exchange loss of $10.8 million (2013: gain of $22.9 million) on translation of inter-company loans to AUD at reporting date is transferred to the foreign currency translation reserve, in equity (note 30(b)). There was no ineffectiveness to be recorded from net investments in foreign entity hedges.

(b) Risk exposures

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk and about the methods and assumptions used in determining fair values is provided in note 2.

Note 33. Key management personnel disclosures

(a) Directors

The following persons were Directors of Billabong International Limited during the financial year:

(i) Non-Executive Chairman

Non-Executive Chairman
Ian Pollard

(ii) Executive Directors

Executive Directors	
Neil Fiske	Managing Director and Chief Executive Officer (CEO) from 21 September 2013
Launa Inman	Managing Director and CEO until 2 August 2013
Paul Naude	President of the Americas (President Americas) until 5 August 2013

(iii) Non-Executive Directors

Non-Executive Directors	
Tony Froggatt	Director until 4 November 2013
Gordon Merchant AM	Director
Howard Mowlem	Director
Jason Mozingo	Director from 4 November 2013
Colette Paull	Director until 30 January 2014
Sally Pitkin	Director
Jesse Rogers	Director from 23 July 2013 until 4 November 2013
Keoni Schwartz	Director from 23 July 2013 until 4 November 2013
Matthew Wilson	Director from 4 November 2013

Note 33. Key management personnel disclosures (continued)

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Other Key Management Personnel (KMP)		Employer
Paul Burdekin	Acting General Manager, Billabong Group Asia Pacific (GM Asia Pacific) from 3 March 2014. Role confirmed 17 July 2014.	GSM (Operations) Pty Ltd
Franco Fogliato	General Manager, Billabong Group Europe (GM Europe) until 2 November 2013.	GSM Europe Pty Ltd
Colin Haggerty	Group Executive - Global Retail from 5 July 2012 until 19 November 2013. During the year also performed the role of Acting President Americas from 19 November 2012 to 4 October 2013.	GSM (Operations) Pty Ltd
Ed Leasure	Acting President Americas (President Americas) from 8 October 2013. Role confirmed 10 December 2013.	Burleigh Point, Ltd
Peter Myers	Chief Financial Officer (CFO) from 14 January 2013. During the year also performed the role of Acting Chief Executive Officer from 5 August 2013 to 21 September 2013.	GSM (Operations) Pty Ltd
Shannan North	General Manager, Billabong Group Asia Pacific (GM Asia Pacific) until 3 March 2014, then Global President, Brand Billabong from 3 March 2014.	GSM (Operations) Pty Ltd
Jean-Louis Rodrigues	Acting General Manager, Billabong Group Europe (GM Europe) from 25 September 2013. Role confirmed 10 December 2013.	GSM Europe Pty Ltd
Jeffrey Streader	Global Chief Operating Officer (COO) from 4 May 2014.	Burleigh Point, Ltd

(c) Key management personnel compensation

	2014 **$**	2013 $
Short-term employee benefits	7,017,192	7,671,090
Long-term employee benefits – long service leave	48,899	44,390
Termination benefits	3,087,799	735,374
Post-employment benefits	134,440	148,593
Share-based payments	(1,231,383)	(130,286)
	9,056,947	8,469,161

Detailed remuneration disclosures are provided in the Remuneration Report.

(d) Equity instrument disclosures relating to key management personnel

(i) Options and rights to deferred shares provided as remuneration

Details of options and rights to deferred shares granted as remuneration, together with their terms and conditions, can be found in the Remuneration Report. The report also shows shares issued on the exercise of such options and on vesting of the rights.

Note 33. Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel (continued)

(ii) Options holdings
The number of options over ordinary shares in the Company held during the financial year by each Director of Billabong International Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2014 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Billabong International Limited						
P. Naude[1]	524,170	---	---	(524,170)	---	---
Other key management personnel of the Group						
F. Fogliato[2]	314,503	---	---	(314,503)	---	---
S. North[3]	314,503	---	---	---	314,503	---

1 *Employment ceased 5 August 2013. Executive Director resignation effective same date.*
2 *Employment ceased 2 November 2013.*
3 *Promoted from General Manager Asia Pacific to Global President, Brand Billabong on 3 March 2014. During the year ended 30 June 2014, these options lapsed as a result of the required hurdles not being met.*

(iii) Rights holdings
Details of rights provided as remuneration and shares issued on the vesting of such rights, together with the terms and conditions of the rights, can be found in the Remuneration Report. The number of rights over ordinary shares in the Company held during the financial year by each Director of Billabong International Limited and other key management personnel of the Group are set out below.

2014 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year[12]	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Billabong International Limited[11]						
N. Fiske[1]	---	2,242,429	---	---	2,242,429	---
L. Inman[2]	713,401	---	---	(713,401)	---	---
P. Naude[3]	206,336	---	---	(206,336)	---	---
Other key management personnel of the Group[11]						
F. Fogliato[4]	328,939	---	(10,528)	(318,411)	---	---
S. North[5]	332,814	673,592	(14,403)	(51,400)	940,603	---
C. Haggerty[6]	191,712	179,426	---	(371,138)	---	---
P. Myers[7]	---	634,937	---	---	634,937	---
P. Burdekin[8]	---	---	(9,638)	50,530	40,892	---
E. Leasure[9]	---	447,584	(5,397)	20,069	462,256	---
J-L. Rodrigues[10]	---	275,636	(10,923)	40,617	305,330	---

1 *Appointed 21 September 2013.*
2 *Employment ceased 2 August 2013. Executive Director resignation effective same date.*
3 *Employment ceased 5 August 2013. Executive Director resignation effective same date.*
4 *Employment ceased 2 November 2013.*
5 *Promoted from General Manager Asia Pacific to Global President, Brand Billabong on 3 March 2014.*
6 *Employment ceased 19 November 2013.*
7 *Was Acting CEO for the period 5 August 2013 to 21 September 2013.*
8 *Promoted to KMP role 3 March 2014.*
9 *Promoted to KMP role 8 October 2013.*
10 *Promoted to KMP role 25 September 2013.*
11 *Includes rights granted under the Executive Long Term Incentive Plan, Executive Performance Share Plan and the Short Term Incentive Deferral.*
12 *Includes forfeitures of awards and awards that were granted in the periods before considered to be in a KMP role.*

Note 33. Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel (continued)

(iv) Share holdings
The numbers of ordinary shares in the Company held during the financial year by each Director of Billabong International Limited and other key management personnel of the Group, including their personally related entities, are set out below.

2014 Name	Balance at the start of the year	Received on the exercise of rights holdings	Received on the exercise of options	Other changes during the year[12]	Balance at the end of the year
Directors of Billabong International Limited					
I. Pollard	7,329	---	---	82,749	90,078
N. Fiske[1]	---	---	---	2,455,357	2,455,357
G.S. Merchant	70,605,521	---	---	26,477,073	97,082,594
H. Mowlem	100,000	---	---	37,500	137,500
S.A.M. Pitkin	70,000	---	---	26,250	96,250
C. Paull[2]	5,521,824	---	---	(5,521,824)	---
A.G. Froggatt[3]	7,505	---	---	(7,505)	---
P. Naude[4]	1,045,988	---	---	(1,045,988)	---
L. Inman[5]	59,000	---	---	(59,000)	---
Other key management personnel of the Group					
P. Burdekin[6]	---	9,638	---	42,042	51,680
E. Leasure[7]	---	5,397	---	101,371	106,768
S. North[8]	223,407	14,403	---	(27,916)	209,894
J-L Rodrigues[9]	---	10,923	---	8,014	18,937[10]
F. Fogliato[11]	25,191	10,528	---	(35,719)	---

1 *Appointed 21 September 2013. A total of 1,785,714 ordinary shares issued (as part of the CEO Sign-on bonus- refer to note 29(g)) are to be held in voluntary escrow until commencement of trade on 10 January 2016.*
2 *Resigned effective 30 January 2014 – details of C. Paull's share holdings subsequent to her resignation are not required to be disclosed.*
3 *Resigned effective 4 November 2013 – details of A.G Froggatt's share holdings subsequent to his resignation are not required to be disclosed.*
4 *Resigned effective 5 August 2013 – details of P. Naude's share holdings subsequent to his resignation are not required to be disclosed.*
5 *Resigned effective 2 August 2013 – details of L. Inman's share holdings subsequent to her resignation are not required to be disclosed.*
6 *Appointed Acting General Manager, Billabong Group Asia Pacific on 3 March 2014 and was permanent in this role from 17 July 2014.*
7 *Appointed Acting President Americas on 8 October 2013 and was permanent in this role from 10 December 2013.*
8 *Was General Manager, Billabong Group Asia Pacific until 3 March 2014, and then was appointed Global President, Brand Billabong from 3 March 2014.*
9 *Appointed Acting General Manager, Billabong Group Europe from 25 September 2013 and was permanent in this role from 10 December 2013.*
10 *Including exercised rights holding of 10,923 shares which cannot be disposed of before the end of a 24 month restriction period following the allocation date.*
11 *Employment ceased on 2 November 2013 – details of F. Fogliato's share holdings subsequent to his cessation of employment are not required to be disclosed.*
12 *Includes forfeitures of awards and awards that were granted in the periods before considered to be in a KMP role.*

(e) Other transactions with Directors and other key management personnel

Directors of Billabong International Limited
During 2013 a subsidiary of the Company leased a retail store in South Africa from the wife of Director P. Naude. The rental agreement was based on normal commercial terms and conditions.

Note 34. Remuneration of auditors

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

	2014 **$**	2013 $
(a) PwC Australia		
(i) Audit and other assurance services		
Audit and review of financial reports	1,004,359	991,940
Other assurance services	27,300	23,800
Total remuneration for audit and other assurance services	1,031,659	1,015,740
(ii) Taxation services		
International tax consulting together with separate tax advice on acquisitions and disposals	189,668	999,065
Total remuneration for taxation services	189,668	999,065
(iii) Other services		
Due diligence services	138,845	528,393
General accounting advice	---	25,700
Total remuneration for other services	138,845	554,093
Total remuneration of PwC Australia	1,360,172	2,568,898
(b) Network firms of PwC Australia		
(i) Audit and other assurance services		
Audit and review of financial reports	829,639	1,024,867
Other assurance services	81,349	45,131
Total remuneration for audit and other assurance services	910,988	1,069,998
(ii) Taxation services		
International tax consulting together with separate tax advice on acquisitions and disposals	182,012	137,261
Total remuneration for taxation services	182,012	137,261
(iii) Other services		
Due diligence services	---	29,695
General accounting advice	116,362	83,088
Total remuneration for other services	116,362	112,783
Total remuneration of Network firms of PwC Australia	1,209,362	1,320,042
Total auditors' remuneration	2,569,534	3,888,940

In addition to the above, during the prior year PricewaterhouseCoopers Australia and its network firms were engaged by various third parties as part of the acquisition and refinancing proposals. Under the requirements of the agreements with these third parties, these and other professional fees were reimbursed by the Company. Payments or payables to PricewaterhouseCoopers Australia and its network firms under these agreements totalled $911,285 during the 2013 financial year. PricewaterhouseCoopers Australia and its network firms were employed on acquisition and refinancing proposals with other third parties that were not reimbursed by the Group.

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

Note 34. Remuneration of auditors (continued)

The Group and its Audit Committee are committed to ensuring the independence of the external auditors, both in appearance as well as in fact. Accordingly, significant attention is directed toward the appropriateness of the external auditors to perform services other than the audit. A formal pre-approval policy of audit and non-audit services provided by the external auditor has been adopted in this regard such that proposed services may either (1) be pre-approved without consideration of specific case-by-case services by the Audit Committee ("general pre-approval"), for example statutory or financial audits/reviews; or (2) require the specific pre-approval of the Audit Committee ("specific pre-approval"), for example taxation and other services. The Audit Committee believes that the combination of these two approaches, and the inclusion of prohibited services, in this policy will result in an effective and efficient procedure to pre-approve services performed by the external auditor.

Note 35. Contingencies

Details and estimates of maximum amounts of contingent liabilities as at 30 June 2014 are as follows:

Guarantees
For information about guarantees given by entities within the group, including the parent entity, please refer to notes 40 and 46.

Contingent Consideration
As at 30 June 2014 the deferred consideration relating to the RVCA (2013: DaKine, RVCA and SDS/Jetty Surf) acquisition has been fully recognised taking into account the latest Board approved forecast. The contingent consideration of $15.7 million (2013: $19.3 million) was included in the deferred consideration recorded in the financial statements. Refer to note 28.

At future reporting dates the Group will review these payments and restate them should the earnings forecasts change or management retention conditions (if applicable) are not achieved (which may result in additional or reduced consideration being payable).

Trade Letters of Credit
The Group had $13.1 million letters of credit in favour of suppliers executed but undrawn as at 30 June 2014 (2013: $7.5 million). The letters of credit related to the purchase of inventory in the 2013-14 financial year and are part of the ordinary course of business.

Potential Class Action
As announced on 6 March 2014 the Company has become aware of media reports suggesting that Slater & Gordon, a law firm, was preparing to commence a class action on behalf of a number of investors in relation to the Company's trading update announcement made on 19 December 2011. As at 30 June 2014 the Company has not been contacted by Slater & Gordon nor has it been served with any proceedings. The Company will vigorously defend claims of the nature described in the reports which relate to events that occurred more than two years ago. The Board and management of the Company today will continue to focus on the important operational and structural changes necessary to drive our turnaround program outlined at the 2013 AGM and half year results presentation.

No material losses are anticipated in respect of any of the above contingent liabilities.

Note 36. Commitments

	2014 $'000	2013 $'000
(a) Lease commitments		
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	79,608	93,521
Later than one year but not later than five years	164,990	227,161
Later than five years	20,064	36,647
	264,662	357,329
Representing:		
Non-cancellable operating leases	264,176	356,730
Future finance charges on finance leases	486	599
	264,662	357,329

Note 36. Commitments (continued)

(a) Lease commitments (continued)

(i) Operating leases

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

	2014 $'000	2013 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	79,479	93,395
Later than one year but not later than five years	164,633	226,688
Later than five years	20,064	36,647
	264,176	356,730

(ii) Finance leases

The Group leases various plant and equipment with a carrying amount of $10.0 million (2013: $11.2 million).

	2014 $'000	2013 $'000
Commitments in relation to finance leases are payable as follows:		
Within one year	2,300	1,708
Later than one year but not later than five years	4,814	6,389
Later than five years	---	---
Minimum lease payments	7,114	8,097
Future finance charges	(486)	(599)
Total lease liabilities recognised as a liability	6,628	7,498
Representing lease liabilities:		
Current (note 22)	2,171	1,582
Non-current (note 25)	4,457	5,916
	6,628	7,498
The present value of finance lease liabilities is as follows:		
Within one year	2,171	1,582
Later than one year but not later than five years	4,457	5,916
Later than five years	---	---
Minimum lease payments	6,628	7,498

	2014 $'000	2013 $'000
(b) Product purchase commitments		
Contractual obligation for future product purchases – not recognised as a liability:		
Within one year	---	32,479
Later than one year but not later than five years	---	130,676
Later than five years	---	---
	---	163,155

On 23 July 2013 the Group entered into agreements to reduce the above 30 June 2013 product purchase commitments to US$9.0 million in the year ended 30 June 2014 and no further commitments thereafter. Refer note 16.

Note 37. 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 39.

(c) Key management personnel

Disclosures relating to key management personnel (including CEO Sign-on bonus) are set out in note 33.

(d) Transactions with other related parties

(i) Associates

The following transactions occurred with associates:

	2014 $	2013 $
Purchases of goods		
Purchases of premium watches, apparel and accessories	---	10,924,540

At 30 June 2013 the Group had a 48.5% interest in Nixon Investments, LLC, a leader in the premium watch and accessories action sports market. Nixon Investments, LLC is resident in the United States of America. On 23 July 2013 the Group entered into agreements with Nixon Investments, LLC and Trilantic Capital Partners (collectively Nixon) to reduce the Group's commitment to purchase previously agreed volumes of product from Nixon over a four year period. As a result of these agreements the Group's interest in Nixon Investments, LLC was reduced to 4.85%. As a result Nixon is no longer treated as an associate (refer to note 10).

(ii) Other related parties

The following transactions occurred with other related parties:

Line fees and other transactions	**2014 $**	2013 $
Oaktree Capital Management, L.P	468,690	---
Centerbridge Partners, L.P	788,870	---
Non-Executive Director remuneration		
Oaktree Capital Management, L.P	62,517	---
Centerbridge Partners, L.P	62,517	---

(e) Outstanding balances arising from transactions with related parties

(i) Outstanding balances arising from purchases of goods and transactions associated with the sale of Nixon

The following balances are outstanding at the end of the reporting period in relation to transactions with associates:

	2014 $	2013 $
Current receivables	---	2,469,532
Current payables	---	8,048,580

There is no allowance account for impaired receivables in relation to any outstanding balances and no expense has been recognised in respect of impaired receivables due from related parties.

Note 37. Related party transactions (continued)

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

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

Other transactions	**2014 $**	2013 $
Oaktree Capital Management, L.P	66,491	---
Centerbridge Partners, L.P	286,520	---

(f) Loans from related parties

Oaktree Capital Management, L.P	**2014 $**	2013 $
Beginning of the year	---	---
Loans advanced	193,735,097	---
Loan repayments received	(87,018,551)	---
Interest charged	11,345,064	---
Interest paid	(11,327,403)	---
Exchange differences	1,418,659	---
End of year	108,152,866	---

Centerbridge Partners, L.P	**2014 $**	2013 $
Beginning of the year	---	---
Loans advanced	193,735,097	---
Loan repayments received	(87,018,551)	---
Interest charged	11,345,064	---
Interest paid	(11,327,403)	---
Exchange differences	1,418,659	---
End of year	108,152,866	---

(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 38. Business combinations

2014

There were no business combinations that were of a material nature for the year ended 30 June 2014. The payments for purchase of subsidiaries and businesses, net of cash acquired in the consolidated cash flow statement is in relation to the deferred consideration payments for RVCA, SDS/Jetty Surf and DaKine.

On 1 November 2013 and 17 December 2013 the deferred consideration payments in relation to SDS/Jetty Surf were paid in full and therefore no further amounts are due in relation to this acquisition.

On 31 January 2014 a prepayment of US$20.0 million was made as part of the amendments to the RVCA 2015 earn out arrangements, which were negotiated as part of the original acquisition in 2010 and the forgiveness of US$7.5 million of loans which otherwise would have been receivable coinciding with the 2015 earn out arrangements.

On 17 April 2014 the deferred consideration payment in relation to the remaining amount outstanding for DaKine (US$1.5 million) was paid in full and therefore no further amounts are due in relation to this acquisition.

2013

There were no business combinations that were of a material nature for the year ended 30 June 2013. The payments for purchase of subsidiaries and businesses, net of cash acquired in the consolidated cash flow statement is in relation to the deferred consideration payments for Quiet Flight, Swell, DaKine and Sector 9, the payment relating to the increase in the Group's ownership of Surfstitch Pty Ltd from 20% to 51% and other immaterial current year acquisitions.

On 6 August 2012 the deferred consideration payment in relation to Quiet Flight was paid in full and therefore no further amounts are due in relation to this acquisition.

On 9 August 2012 the deferred consideration payment in relation to Swell was paid in full and therefore no further amounts are due in relation to this acquisition.

On 2 October 2012 the Group acquired 31% of the issued share capital of Surfstitch Pty Ltd. The Group now controls 51% of the issued share capital of Surfstitch Pty Ltd. The Group previously had control of Surfstitch Pty Ltd through the acquisition of greater than 50% of the voting rights and has been fully consolidating this entity from the date which control was transferred to the Group, being 1 December 2009.

On 20 November 2012 the deferred consideration payment in relation to Sector 9 was paid in full and therefore no further amounts are due in relation to this acquisition.

On 26 November 2012 the majority of the deferred consideration payment in relation to DaKine was paid. The remaining amount outstanding (US$1.5 million) has been retained as a reserve for payment of any purchasers' damages incurred in relation to ongoing litigation.

Note 39. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following significant subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity		Country of incorporation	Class of shares	Equity holding **	
				2014 %	2013 %
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
GSM (Central Sourcing) Pty Ltd	*	Australia	Ordinary	100	100
GSM (Duranbah) Pty Ltd		Australia	Ordinary	100	100
GSM (Europe) Pty Ltd	*	Australia	Ordinary	100	100
GSM (Japan) Limited		Japan	Ordinary	100	100
GSM (NZ Operations) Limited		New Zealand	Ordinary	100	100
GSM (Operations) Pty Ltd	*	Australia	Ordinary	100	100
GSM (Trademarks) Pty Ltd		Australia	Ordinary	100	100
GSM Trading (South Africa) Pty Ltd	*	Australia	Ordinary	100	100
GSM Brasil Ltda		Brazil	Ordinary	100	100
GSM England Retail Ltd		England	Ordinary	100	100
GSM Espana Operations Sociedad Limitada		Spain	Ordinary	100	100
GSM 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
Surfection Pty Ltd		Australia	Ordinary	100	100
Surfstitch Pty Ltd		Australia	Ordinary	51	51
Surfstitch (Europe) Pty Ltd		Australia	Ordinary	51	51

* These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 40.

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

Note 39. Subsidiaries (continued)

(a) Non-controlling interests (NCI)

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the group. The amounts disclosed for each subsidiary are before inter-company eliminations.

	Surfstitch Pty Ltd		Surfstitch (Europe) Pty Ltd	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Summarised balance sheet				
Current assets	19,719	15,052	4,440	7,082
Current liabilities	14,944	8,668	4,326	4,142
Current net assets	4,775	6,384	114	2,940
Non-current assets	4,834	4,027	3,344	3,677
Non-current liabilities	9,163	8,791	24,983	16,527
Non-current net liabilities	(4,329)	(4,764)	(21,639)	(12,850)
Net assets/(liabilities)	446	1,620	(21,525)	(9,910)
Accumulated NCI	760	1,334	(11,282)	(5,635)
Summarised statement of comprehensive income				
Revenue	60,613	48,919	12,682	8,040
(Loss)/Profit for the period	(1,172)	1,164	(11,524)	(8,685)
Other comprehensive expense	---	---	---	---
Total comprehensive (expense)/income	(1,172)	1,164	(11,524)	(8,685)
(Loss)/profit allocated to NCI	(574)	794	(5,647)	(4,256)
Summarised cash flows				
Cash flows from operating activities	1,629	6,726	(5,002)	(8,912)
Cash flows from investing activities	(1,778)	(2,848)	3,622	8,991
Cash flows from financing activities	(1,250)	(1,000)	---	---
Net (decrease)/increase in cash and cash equivalents	(1,399)	2,878	(1,380)	79

Note 40. Deed of cross guarantee

Billabong International Limited, GSM (Europe) Pty Ltd, GSM (Operations) Pty Ltd, Pineapple Trademarks Pty Ltd, GSM (Central Sourcing) Pty Ltd, Amazon (New Zealand) Pty Ltd, GSM Trading (South Africa) Pty Ltd, Board Sports Retail Pty Ltd and GSM (Canada) Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

(a) Consolidated income statement, statement of comprehensive expense and summary of movements in consolidated retained profits

The above companies represent a 'Closed Group' for the purposes of the Class Order.

Set out below are the condensed consolidated income statement, a consolidated statement of comprehensive expense and a summary of movements in consolidated retained profits for the year ended 30 June 2014 of the Closed Group, consisting of Billabong International Limited, GSM (Europe) Pty Ltd, GSM (Operations) Pty Ltd, Pineapple Trademarks Pty Ltd, GSM (Central Sourcing) Pty Ltd, Amazon (New Zealand) Pty Ltd, GSM Trading (South Africa) Pty Ltd, Board Sports Retail Pty Ltd and GSM (Canada) Pty Ltd.

Prior year figures set out below represent the condensed consolidated income statement, a consolidated statement of comprehensive expense and a summary of movements in consolidated retained profits for the year ended 30 June 2013 of the Closed Group, at that time consisting of the entities Billabong International Limited, GSM (Europe) Pty Ltd, GSM (Operations) Pty Ltd, Pineapple Trademarks Pty Ltd, GSM (Central Sourcing) Pty Ltd, Amazon (New Zealand) Pty Ltd, GSM Trading (South Africa) Pty Ltd, Board Sports Retail Pty Ltd and GSM (Canada) Pty Ltd.

	2014 $'000	2013 $'000
Income statement		
Revenue from continuing operations	617,064	699,123
Other income	9,604	7,631
Finance costs	(21,800)	(25,064)
Other expenses	(809,857)	(1,484,659)
Share of net loss after-tax of associate accounted for using the equity method	---	(4,979)
Loss before income tax	(204,989)	(807,948)
Income tax expense	(29,102)	(29,475)
Loss for the year	(234,091)	(837,423)
Loss attributable to non-controlling interests	6,221	3,461
Loss for the year attributable to the members of the closed group	(227,870)	(833,962)
Statement of comprehensive expense		
Loss for the year	(234,091)	(837,423)
Other comprehensive expense		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges, net of tax	(2,888)	889
Exchange differences on translation of foreign operations	(2,277)	31,737
Net investment hedge, net of tax	(11,749)	4,191
Other comprehensive (expense)/income for the year, net of tax	(16,914)	36,817
Total comprehensive expense for the year	(251,005)	(800,606)
Loss attributable to non-controlling interests	6,221	3,461
Total comprehensive expense for the year attributable to members of the closed group	(244,784)	(797,145)
Summary of movements in consolidated retained profits		
Retained (losses)/profits at the beginning of the financial year	(270,251)	563,711
Loss for the year	(227,870)	(833,962)
Dividends received	2,762	---
Retained losses at the end of the financial year	(495,359)	(270,251)

Note 40. Deed of cross guarantee (continued)

(b) Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2014 and 30 June 2013 of the Closed Group, consisting of the entities as named above at each point in time.

	2014 $'000	2013 $'000
ASSETS		
Current assets		
Cash and cash equivalents	83,407	44,890
Trade and other receivables	97,414	108,728
Inventories	99,663	121,651
Current tax receivables	1,311	3,977
Other	4,044	10,607
Total current assets	285,839	289,853
Non-current assets		
Receivables	107,907	260,089
Other financial assets	410,630	422,160
Property, plant and equipment	37,979	45,265
Intangible assets	32,247	34,487
Deferred tax assets	248	22,306
Other	4,145	---
Total non-current assets	593,156	784,307
Total assets	878,995	1,074,160
LIABILITIES		
Current liabilities		
Trade and other payables	116,474	127,544
Borrowings	1,625	93,997
Current tax liabilities	---	---
Provisions	13,966	37,069
Total current liabilities	132,065	258,610
Non-current liabilities		
Borrowings	204,448	205,942
Deferred tax liabilities	---	---
Provisions	5,803	10,005
Other	10,686	23,303
Total non-current liabilities	220,937	239,250
Total liabilities	353,002	497,860
Net assets	525,993	576,300
EQUITY		
Contributed equity	1,094,274	910,836
Reserves	(61,934)	(59,518)
Retained losses	(495,359)	(270,251)
Capital and reserves attributable to members of the closed group	536,981	581,067
Non-controlling interests	(10,988)	(4,767)
Total equity	525,993	576,300

Note 41. Events occurring after the balance sheet date

On 21 August 2014 the Company announced the outcome of the strategic review of its multi-brand ecommerce businesses Surfstitch.com in Australia and Europe ("Surfstitch"), and Swell.com in North America ("Swell").

As previously announced on 6 February 2014, the review considered a range of options for both Surfstitch and Swell, as the Company moves to a direct to consumer omni-channel model across its global operations.

On 20 August 2014 the Company entered into binding documentation to sell its 51% stake in Surfstitch and its 100% ownership of Swell to a consortium of investors including Surfstitch founders Justin Cameron and Lex Pedersen ("Surfstitch Consortium") ("Transactions").

The Transactions are inter-conditional and are subject to conditions precedent, which are typical for transactions of this type, with a funding condition which was satisfied on Monday, 25 August 2014. Completion is expected to occur in mid-September 2014.

Upon completion, the Group will receive more than $35 million as a result of the Transactions, comprising sale proceeds, loan repayments and other consideration. The Group will also enter into agreements for the continued wholesale supply of products to Surfstitch and Swell.

The Company expects the Transactions to be earnings accretive to the Group in terms of both EBITDA and net earnings, although the extent of the improvement is contingent upon the future sales to Surfstitch under the new supply arrangements. The Transactions will impact the Australasia, Americas and European operating segments.

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

Note 42. Reconciliation of loss for the year to net cash (outflow)/inflow from operating activities

	2014 $'000	2013 $'000
Loss for the year, before non-controlling interests	(239,933)	(863,002)
Depreciation and amortisation (excluding amortisation of capitalised borrowing costs)	37,317	41,903
Impairment of intangibles	29,255	604,316
Fair value adjustment for assets held for sale during the year	17,718	---
Impairment of property, plant and equipment	---	32,583
Impairment of investment accounted for using the equity method	---	129,600
Share-based payment amortisation expense	63	1,647
Deferred consideration unwinding of discount	1,678	2,269
Net loss on sale of non-current assets	467	1,010
Restructuring costs and other non-cash charges	38,266	17,929
Loss on sale, including transaction costs	11,330	---
Adjustment to onerous supply agreement provision	---	3,482
Foreign currency translation reserve reclassified to income statement	(680)	(13,812)
Loss/(gain) from adjustment to contingent consideration	5,915	(846)
Fair value adjustment to derivative liabilities	(4,514)	9,930
Foreign exchange impact of term debt repayment	(4,220)	---
Share of net loss after-tax of associate accounted for using the equity method	---	4,979
Net exchange differences	2,739	12,082
Change in operating assets and liabilities, excluding effects from business combinations and sale of DaKine and West 49 (2013: Nixon)		
(Increase)/decrease in trade debtors	22,486	29,794
(Increase)/decrease in inventories	25,714	42,260
(Increase)/decrease in deferred tax assets	55,062	22,947
(Increase)/decrease in provision for income taxes receivable	7,032	---
(Increase)/decrease in other operating assets	1,289	37,835
Increase/(decrease) in trade creditors and other operating liabilities	(40,563)	(64,832)
Increase/(decrease) in provision for income taxes payable	1,489	(866)
Increase/(decrease) in deferred tax liabilities	---	(2,001)
Increase/(decrease) in other provisions	(44,529)	(37,272)
Net cash (outflow)/inflow from operating activities	(76,619)	11,935

Note 43. Non-cash investing and financing activities

	2014 $'000	2013 $'000
Acquisition of plant and equipment, and finite life intangibles by means of finance lease	546	---
	546	---

Dividends satisfied by the issue of shares under the Dividend Reinvestment Plan are shown in note 31.

Note 44. Earnings per share

The 2013 basic and diluted earnings per share were restated to reflect the impact of ordinary share capital transactions in the 2013 and 2014 financial years (refer to note 29) in order to achieve a comparable calculation to the 2014 basic and diluted earnings per share. This change takes into account the bonus elements included in the ordinary shares as the transactions were made at discounts to market price.

	2014 Cents	2013 Cents
(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	(24.9)	(104.8)
From discontinued operations	(3.7)	(27.6)
Total basic earnings per share attributable to the ordinary equity holders of the Company	(28.6)	(132.4)
(b) Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	(24.9)	(104.8)
From discontinued operations	(3.7)	(27.6)
Total diluted earnings per share attributable to the ordinary equity holders of the Company	(28.6)	(132.4)

(c) Reconciliations of earnings used in calculating earnings per share

	2014 $'000	2013 $'000
Basic earnings per share		
Loss attributable to the ordinary equity holders of the Company used in calculating basic earnings per share:		
From continuing operations	(203,591)	(680,271)
From discontinued operations	(30,121)	(179,270)
	(233,712)	(859,541)
Diluted earnings per share		
Loss attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share:		
From continuing operations	(203,591)	(680,271)
From discontinued operations	(30,121)	(179,270)
	(233,712)	(859,541)

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

	2014 Number	2013 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	818,285,428	649,258,641
Adjustments for calculating diluted earnings per share:		
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	818,285,428	649,258,641

Note 44. Earnings per share (continued)

(e) Information concerning the classification of securities

Performance shares and conditional rights
Performance shares and conditional rights granted to employees under the Billabong Executive Performance Share Plan are considered to be potential ordinary shares and have not been included in the determination of diluted earnings per share because they are anti-dilutive for the year ended 30 June 2014. The performance shares and conditional rights have also been excluded in the determination of basic earnings per share. Details relating to the rights are set out in note 45.

Options
The 314,503 options granted on 31 October 2008 in relation to the Billabong Performance and Retention Plan are not included in the calculation of diluted earnings per share because they are anti-dilutive for the year ended 30 June 2014. These options could potentially dilute basic earnings per share in the future.

The 42,259,790 options granted on 16 July 2013 to the Altamont Consortium are not included in the calculation of diluted earnings per share because they are anti-dilutive for the year ended 30 June 2014. These options could potentially dilute basic earnings per share in the future.

The 29,581,852 options granted on 3 December 2013 to the C/O Consortium are not included because they are anti-dilutive for the year ended 30 June 2014. These options could potentially dilute basic earnings per share in the future.

The 1,200,000 options granted on 31 January 2014 to Pat Tenore, the founder of RVCA, are not included in the calculation of diluted earnings per share because they are anti-dilutive for the year ended 30 June 2014. These options could potentially dilute basic earnings per share in the future.

Deferred shares
Rights to deferred shares granted to executives under the Group's short-term incentive scheme are included in the calculation of diluted earnings per share assuming all outstanding rights will vest. The rights are not included in the determination of basic earnings per share. Further information about the rights is provided in note 45.

Note 45. Share-based payments

(a) Billabong Executive Long Term Incentive Plan (ELTIP)

During the year, the Board reviewed the Company's long-term incentive plan and approved changing the award vehicle from Performance Shares to Performance Rights. The use of Performance Rights instead of Performance Shares required changing the name of the plan from the Executive Performance Share Plan to the Executive Long Term Incentive Plan.

Participants
Participants comprise the executives of the Group who are directly responsible for driving the growth strategy of the Group. The objectives of the ELTIP for participants remain the same i.e. to provide executives with an equity-based reward opportunity that vests based on the achievement of certain performance hurdles. For awards granted in 2013-14, 50% of awards will be tested on the Group's EPS hurdle (EPS), with the remaining 50% of awards tested on Relative Total Shareholder Return (Relative TSR).

Under the ELTIP the Group awards the following:

Equity vehicle	Overview
Performance rights	Awards granted in 2013-14, are in the form of performance rights which are equity settled share based payments. If the performance hurdles are met, the Company will allocate or procure the transfer of the relevant number of shares to the employee as soon as practicable following the vesting date. An employee awarded performance rights is not legally entitled to shares in the Company before the rights allocated under the ELTIP vest. Once vested, each right entitles the employee to receive one share in the Company.

Note 45. Share-based payments (continued)

(a) Billabong Executive Long Term Incentive Plan (ELTIP) (continued)

Note that for the purposes of the remuneration tables in this report, performance rights, performance shares and conditional rights are collectively referred to as “rights”.

Award, vesting and exercises under the ELTIP are made for no consideration.

Executive Long Term Incentive Plan – performance hurdles
Awards under the ELTIP vest only if the performance hurdles for the portion of the award are satisfied in the relevant performance period. The performance periods are summarised in the table below:

Grant	Performance hurdle		% of award that vests	Performance Period
2013-14	Earnings Per Share performance (EPS)	2.0 cents per share	50%	Financial year ended 30 June 2016
		4.0 cents per share	100%	
	TSR performance relative to comparator group	50th percentile or above	50%	1 January 2014 until 30 September 2016
		75th percentile or above	100%	

In previous periods the EPS performance hurdle was determined based upon 3 year compound growth rates in EPS from a base year. However, due to the significant changes to the capital structure of the Group, the Board has selected EPS as the appropriate internal performance metric.

With the changes to the Company’s market capitalisation, the Board has reviewed the comparator group to now comprise of 40 ASX listed companies within an appropriate market capitalisation range which have significant overseas operations and/or are within a similar industry sector to Billabong International Limited. Over 75% of those companies are, like Billabong, classified as "Consumer Discretionary".

Each year, prior to awards being granted, the Human Resource and Remuneration Committee considers the market environment, the Group’s business strategy, performance expectations and shareholder expectations, and sets the performance targets for the awards to be granted that year.

At the end of the relevant performance period, in line with its charter, the Human Resource and Remuneration Committee consider the EPS and TSR performance of the Group and determines to what extent the awards should vest based on the above vesting conditions.

Set out below is a summary of performance rights awarded under the ELTIP:

Type of right	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of year Number
2014					
Performance Rights	---	4,115,956	---	---	4,115,956
	---	4,115,956	---	---	4,115,956

None of the rights awarded under the ELTIP vested, became exercisable or expired during the year.

Fair value of rights granted
During the year ended 30 June 2014, the assessed fair value at grant date of the performance rights tested under the EPS performance hurdle was $0.43 per right and the performance rights tested under the TSR performance hurdle was $0.34 per right. The fair value at grant date is determined by reference to the Billabong International Limited share price at grant date, taking into account the terms and conditions upon which the rights were granted, the expected dividend yield and the expected price volatility of the underlying share.

Note 45. Share-based payments (continued)

(b) Billabong Executive Performance Share Plan (EPSP)

Following the review of executive remuneration undertaken by the Committee in 2008, the EPSP was restructured into Tier 1 and Tier 2.

EPSP – Tier 1

Tier 1 participants comprise the executives of the Group who are directly responsible for driving the growth strategy of the Group. The objectives of the EPSP for Tier 1 participants remain the same i.e. to provide executives with an equity-based reward opportunity that vests based on the achievement of certain performance hurdles. For awards granted up to and including the 2010-11 awards, the performance hurdle is in relation to the Group's three year EPS performance. For awards granted in 2011-12 and 2012-13, a second performance hurdle has been adopted so that 50% of awards will be tested on the Group's three year EPS performance, with the remaining 50% of awards tested on Total Shareholder Return (TSR). The establishment of the EPSP was approved by shareholders at the 2004 Annual General Meeting.

Under the EPSP the Group awards the following equity subject to the tax implications in the relevant jurisdiction.

Equity vehicle	Overview
Tier 1 Performance shares	An employee awarded performance shares is not legally entitled to shares in the Company before the performance shares allocated under the EPSP vest. For awards granted up to and including the 2010-11 awards, the employee can vote and receive dividends in respect of shares allocated to them. For awards granted in 2011-12 and 2012-13, the employee cannot vote and EPSP dividends will be held in trust during the performance period and net dividends will be paid to executives only on performance shares that vest. If no shares vest, no dividends are payable. For Australian employees, once the shares have vested they remain in the trust until the earlier of the employee leaving the Group, the tenth anniversary of the date the performance shares were awarded or the Board approving an application for their release. For non-Australian employees, once their performance shares vest the shares are transferred to them (or sold on their behalf if they choose). If the performance shares do not vest, they are forfeited by the employee for no consideration.
Tier 1 Conditional rights	An employee awarded conditional rights is not legally entitled to shares in the Company before the rights allocated under the EPSP vest. Once vested, each right entitles the employee to receive one share in the Company. For French employees granted rights after 1 July 2005 and up to and including 2012-13, shares associated with vested rights are automatically transferred to the employee. These shares cannot be disposed of before the end of a 24 month restriction period following the allocation date, except in the event of death. Until such time that the rights have vested the employee cannot use the rights to vote or receive dividends. For all other employees, from the time of the employee receiving notice of the rights having vested they have one month to exercise the rights and either sell the shares or transfer them into their name. If the rights are not exercised by the employee they will automatically exercise and the shares will be transferred to the employee. Until such time that the rights are exercised the employee cannot use the rights to vote or receive dividends. However, if the conditional rights do not vest they are forfeited by the employee for no consideration.

Award, vesting and exercises under the EPSP are made for no consideration.

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

Grant	Performance period
2011-12	2010-11 (base year EPS & TSR) to 2013-14
2012-13	2011-12 (base year EPS & TSR) to 2014-15

Note 45. Share-based payments (continued)

(b) Billabong Executive Performance Share Plan (EPSP) (continued)

Executive Performance Share Plan (Tier 1) – performance hurdles

Year	% of award tested on EPS	EPS compound growth hurdles	% of award that vests	% of award tested on TSR	TSR performance relative to comparator group*	% of award that vests
2010-11	100%	6.00% 8.00% 10.00%	50% 75% 100%	---		
2011-12	50%	6.00% 8.00% 10.00%	50% 75% 100%	50%	50th percentile or above 75th percentile or above	50% 100%
2012-13	50%	15.00% 17.50% 20.00%	50% 75% 100%	50%	50th percentile or above 75th percentile or above	50% 100%

* *Comparator group comprises Australian companies listed in the S&P/ASX 200 at the beginning of each performance period, excluding those companies classified within the Financials and Energy sectors and the Metals and Mining Industry Group.*

The Board selected EPS and TSR (for awards granted in 2011-12 and 2012-13) as the appropriate hurdles for the EPSP as the EPSP is intended to focus executives on the long-term (three year) earnings performance of the Group, and allows the Group to balance an internal performance metric (EPS) with an external performance metric (TSR).

Each year, prior to awards being granted, the Human Resource and Remuneration Committee considers the market environment, the Group's business strategy and performance expectations and shareholder expectations and sets the performance targets for the awards to be granted that year. Due to the recent challenges faced by the Group and a resulting lower EPS base, the targets set at grant differ for each of the 2009-10, 2010-11, 2011-12 and 2012-13 grants.

EPSP - Tier 2
Tier 2 participants comprise other senior management of the Group. The primary objective of the Tier 2 EPSP is retention. Under the EPSP, Tier 2 participants are awarded performance shares and conditional rights. The awards do not vest unless the employee has completed a period of two years of employment from the date the awards are granted.

The Group awards the following equity subject to the tax implications in the relevant jurisdiction:

Equity vehicle	Overview
Tier 2 Performance shares	An employee awarded performance shares is not legally entitled to shares in the Company before the performance shares allocated under the EPSP vest. However, the employee can vote and receive dividends in respect of shares allocated to them. Once the shares have vested the shares are transferred to the employee. However, if the performance shares do not vest they are forfeited for no consideration.
Tier 2 Conditional rights	An employee awarded conditional rights is not legally entitled to shares in the Company before the rights allocated under the EPSP vest. Once vested, each right entitles the employee to receive one share in the Company. Until such time that the rights are exercised the employee cannot use the rights to vote or receive dividends. However, if the conditional rights do not vest they are forfeited for no consideration.

Note 45. Share-based payments (continued)

(b) Billabong Executive Performance Share Plan (EPSP) (continued)

Set out below is a summary of equity based rights (performance shares and conditional rights) awarded under the EPSP:

Type of right	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of year Number
2014					
Performance Shares	3,033,887	---	(414,844)	(1,538,048)	1,080,995
Conditional Rights	1,101,006	---	(198,134)	(446,373)	456,499
	4,134,893	---	(612,978)	(1,984,421)	1,537,494
2013					
Performance Shares	1,710,939	2,572,057	(579,801)	(669,308)	3,033,887
Conditional Rights	522,147	820,068	(165,040)	(76,169)	1,101,006
	2,233,086	3,392,125	(744,841)	(745,477)	4,134,893

None of the rights awarded under the Tier 1 EPSP vested or became exercisable during the year.

The total equity based rights that expired during the year ended 30 June 2014 and have not yet been granted under a new award was 2,157,083 (2013: 172,662). These expired equity based rights are held pending further awards being granted.

Fair value of rights granted
The assessed fair value at grant date of rights granted under the EPSP during the year ended 30 June 2013 was $1.12 per right. The fair value at grant date is determined by reference to the Billabong International Limited share price at grant date, taking into account the terms and conditions upon which the rights were granted, the expected dividend yield and the expected price volatility of the underlying share.

Note 45. Share-based payments (continued)

(c) Short Term Incentive (STI) deferral

The STI grants for 2012-13 were in the form of deferred performance rights. Under the group's short-term incentive (STI) scheme, executives are granted performance rights which are equity settled share based payments. The deferred equity will vest to participants after a period of two years.

Following the review of executive remuneration undertaken by the Committee in 2010, STI deferral was introduced for the STI grants from 2010-11 onwards. With STI deferral a portion (25% to 30%) of the incentive earned is deferred into equity. This is in the form of either shares or rights. The deferred equity will vest to participants after a period of two years.

The Group awards the following equity subject to the tax implications in the relevant jurisdiction:

Equity vehicle	Overview
Performance rights	Awards granted in 2012-13, are in the form of performance rights which are equity settled share based payments. Once vested, each performance right entitles the employee to receive one share in the Company. Until such time that the rights are exercised the employee cannot use the rights to vote or receive dividends. However, if the performance rights do not vest they are forfeited for no consideration.
Performance shares	Awards granted in 2010-11 were in the form of performance shares. An employee awarded performance shares is not legally entitled to shares in the Company before the performance shares allocated under the STI deferral vest. However, the employee can vote and receive dividends in respect of shares allocated to them. Once the shares have vested the shares are transferred to the employee. However, if the performance shares do not vest they are forfeited for no consideration.
Conditional rights	An employee awarded conditional rights is not legally entitled to shares in the Company before the rights allocated under the STI deferral vest. Once vested, each right entitles the employee to receive one share in the Company. Until such time that the rights are exercised the employee cannot use the rights to vote or receive dividends. However, if the conditional rights do not vest they are forfeited for no consideration.

Set out below is a summary of equity based rights (performance rights, performance shares and conditional rights) awarded under STI deferral:

Type of right	Grant date	Performance determination date	Balance at start of year	Granted during the year	Exercised during the year	Expired during the year	Balance at end of year
			Number	Number	Number	Number	Number
2014							
Performance Rights	1 September 2013	30 June 2015	---	443,553	---	---	443,553
Performance Shares	1 September 2011	30 June 2013	26,585	---	(26,585)	---	---
Conditional Rights	1 September 2011	30 June 2013	10,528	---	(10,528)	---	---
			37,113	443,553	(37,113)	---	443,553
2013							
Performance Shares	1 September 2011	30 June 2013	26,585	---	---	---	26,585
Conditional Rights	1 September 2011	30 June 2013	10,528	---	---	---	10,528
			37,113	---	---	---	37,113

None of the performance rights awarded under the STI deferral vested or became exercisable during the year.

There were no STI deferred performance shares or conditional rights granted during the year ended 30 June 2014 and 2013.

Note 45. Share-based payments (continued)

(c) Short Term Incentive (STI) deferral (continued)

Fair value of rights granted
The assessed fair value at grant date of performance rights granted under the STI deferral during the year ended 30 June 2014 was $0.47 per right. The fair value at grant date is determined by reference to the Billabong International Limited share price at grant date, taking into account the terms and conditions upon which the rights were granted, the expected dividend yield and the expected price volatility of the underlying share.

(d) Billabong Executive Performance and Retention Plan (EPRP)

The establishment of the EPRP was approved at the Annual General Meeting of the Company held on 28 October 2008. The EPRP is designed to retain and effectively reward key senior executives over a five year period for growing the market value of the Group and delivering returns to shareholders. Under the EPRP, the executive team are granted options. The options will only vest if certain performance hurdles are met and if the individual is still employed by the Group at the end of the vesting period.

Vesting of the options is subject to the Company's Total Shareholder Return (TSR) performance. TSR measures growth in the Company's share price, together with the value of dividends received during the relevant period. Two TSR performance hurdles must be achieved in order for awards to vest:

- A 'gateway' relative TSR hurdle of above median of a comparator group of companies over the five year performance period, measured from start of performance period to end of year five; and
- Absolute TSR hurdle with a 120% target (equivalent to approximately 12.8% share price growth per annum over five years) to be achieved at any point over the five year performance period.

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

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

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

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

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

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

Once vested the options remain exercisable for a period of two years.

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

Note 45. Share-based payments (continued)

(d) Billabong Executive Performance and Retention Plan (EPRP) (continued)

When exercisable each option is convertible into one ordinary share upon receipt of funds.

The exercise price of options is based on the weighted average price at which the Company's shares are traded on the Australian Securities Exchange during the five trading days immediately before the options are granted. Amounts received on the exercise of options are recognised as share capital.

Set out below are summaries of options granted under the EPRP.

2014

Grant date	Expiry date	Exercise price	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of year Number	Exercisable at end of year Number
31 October 2008	31 October 2015	$11.08	838,673	---	---	(524,170)	314,503	---
24 November 2008	24 November 2015	$10.80	314,503	---	---	(314,503)	---	---
			1,153,176	---	---	(838,673)	314,503	---
Weighted average exercise price			$11.00			$10.98	$11.08	

2013

Grant date	Expiry date	Exercise price	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of year Number	Exercisable at end of year Number
31 October 2008	31 October 2015	$11.08	1,153,176	---	---	(314,503)	838,673	---
24 November 2008	24 November 2015	$10.80	314,503	---	---	---	314,503	---
			1,467,679	---	---	(314,503)	1,153,176	---
Weighted average exercise price			$11.02			$11.08	$11.00	

Fair value of options granted
The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using the Monte-Carlo simulation option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

		Grant Date	
	The model inputs for options granted during the year ended 30 June 2009 included:	**31 October 2008**	**24 November 2008**
(a)	exercise price:	$11.43	$10.80
(b)	vesting date:	31 October 2013	24 November 2013
(c)	expiry date:	31 October 2015	24 November 2015
(d)	share price at grant date:	$11.92	$9.60
(e)	expected price volatility of the Company's shares:	30%	30%
(f)	expected dividend yield:	3.80%	4.20%
(g)	expected life:	6.0 years	6.0 years
(h)	risk-free interest rate:	4.84%	4.20%

(i) options are granted for no consideration and vest based on the Company's TSR, including share price growth, dividends and capital returns, compared to the TSR of the constituents of the S&P/ASX 100 Index at the start of the performance period (excluding companies under the Global Industry Classification Standard name codes: 'Oil, Gas and Consumable Fuels' and 'Metals and Mining') over a five year period. Vested options are exercisable for a period of two years after vesting.

Note 45. Share-based payments (continued)

(d) Billabong Executive Performance and Retention Plan (EPRP) (continued)

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

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

Under the rules of the EPRP, the Board has the power to adjust the exercise price to take account of the entitlement offer. The purpose of this is to ensure that option holders are not unfairly advantaged or disadvantaged by the entitlement offer. Due to the increase in the Company's share capital as a result of the entitlement offer and the impact on the share price which could potentially affect the options granted under the EPRP, the exercise price has been adjusted in accordance with the ASX Listing Rules.

The formula under the ASX Listing Rules is:

$$O' = O - \frac{E \times [P - (S+D)]}{N + 1}$$

The formula inputs for options granted on 31 October 2008 included:

O' = the new exercise price of the option
O = the old exercise price of the option
E = the number of underlying securities into which one option is exercisable
P = the volume weighted average market price per security of the underlying securities during the Company's five trading days ending on the day before the ex-entitlement date
S = the subscription price for a security under the entitlement issue
D = the dividend due, but not yet paid, on the existing underlying securities (except those to be issued under the pro-rata issue)
N = the number of securities which must be held to receive a right to one new security

The calculation to determine the reduced exercise price for the options granted on 31 October 2008 is as follows:

$$O' = 11.43 - \frac{1 \times [9.80 - (7.50 + 0)]}{5.5 + 1}$$

$$O' = 11.08$$

The options granted on 24 November 2008 relate to Franco Fogliato, General Manager, Billabong Europe who is a French resident and was granted options under a French sub-plan, which complies with French legal and taxation requirements and which therefore restricts the ability to amend the exercise price of options after their grant date. As a result, the exercise price for these options was not adjusted and the terms of these options were not amended.

Options granted to Franco Fogliato were forfeited during the year as a result of his employment ceasing.

(e) Other options granted

On 19 September 2013 the Company announced that it had agreed to issue 29,581,852 options ("the Options") to the C/O Consortium upon funding of the new term loan. The assessed fair value at grant date of the C/O Consortium options was $0.15. The fair value of these options ($4.3 million) was recognised within prepaid borrowing costs which netted off against the Term loan facility carrying balance included in non-current borrowings (note 25). Refer to note 29 (j) and note 30(b).

On 16 July 2013 the Company announced that it had agreed to issue 42,259,790 options to the Altamont Consortium. The assessed fair value at grant date of the C/O Consortium options at grant date was $0.08. The fair value of these options ($3.5 million) was recognised in borrowing costs as a significant item for the year ended 30 June 2014. Refer to note 29(k) and note 30 (b).

Note 45. Share-based payments (continued)

(f) 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:

	2014 **$**	2013 $
Operating costs of the Billabong Long Term Incentive Plans	25,400	24,300
Share-based payment (income)/expense	(275,934)	1,646,885
	(250,534)	1,671,185

For the period ended 30 June 2014, the share-based payment income was a result of a write back in accumulated expenses previously recognised in the Group's income statement in respect of the EPRP as a result of performance hurdles and retention requirements in relation to certain components of the EPRP not being met.

The CEO Sign-on bonus granted to Neil Fiske (refer to note 29) and the options granted to Pat Tenore (refer to note 28), are both classified as share based payments.

Note 46. Parent entity financial information

(a) Summary financial information

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

	Parent entity	
	2014 **$'000**	2013 $'000
Current assets	28,881	2,900
Total assets	698,474	1,026,233
Current liabilities	3,712	46,957
Total liabilities	467,672	496,582
Shareholders' equity		
Issued capital	1,094,274	910,836
Reserves		
Option reserve	47,404	31,323
Retained earnings	(910,876)	(412,508)
	230,802	529,651
(Loss)/profit for the year	(498,368)	(756,911)
Total comprehensive (expense)/income	(498,368)	(756,911)

(b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2014 or 30 June 2013.

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

As at 30 June 2014 the parent entity had no contractual commitments for the acquisition of property, plant or equipment.

(d) Guarantees entered into by the parent entity

Billabong International Limited is a party to the deed of cross guarantee as described in note 40. No deficiencies of assets exist in any of the companies described in note 40.

In the Directors' opinion:

(a) the financial statements and notes set out on pages 60 to 163 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 2014 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 40 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 40.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

Ian Pollard
Chairman

Sydney
28 August 2014

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

Report on the financial report

We have audited the accompanying financial report of Billabong International Limited (the company), which comprises the consolidated balance sheet as at 30 June 2014, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Billabong International Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

Auditor's opinion

In our opinion:

(a) the financial report of Billabong International Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 20 to 46 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Billabong International Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Steven Bosiljevac
Partner

Brisbane
28 August 2014

The shareholder information set out below was applicable as at 8 October 2014.

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	9,342	3,697,354	---	---
1,001	5,000	5,708	13,693,232	---	---
5,001	10,000	1,512	11,061,982	---	---
10,001	100,000	2,147	61,481,387	---	---
100,001	and over	283	900,436,079	7	73,356,145
		18,992	990,370,034	7	73,356,145

There were 7,720 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
CCP II Dutch Acquisition-E BV	164,634,147	16.62%
OCM Clean Wave Holdings BV	164,634,147	16.62%
Citicorp Nominees Pty Limited	90,423,685	9.13%
J P Morgan Nominees Australia Limited	82,396,984	8.32%
HSBC Custody Nominees (Australia) Limited-GSCO ECA	72,895,024	7.36%
National Nominees Limited	47,591,564	4.81%
Gordon Merchant No 2 Pty Ltd <The Merchant Family A/C>	39,458,380	3.98%
Gordon Merchant No 2 Pty Ltd <The Merchant Family A/C>	39,323,757	3.97%
HSBC Custody Nominees (Australia) Limited	35,330,102	3.57%
CS Fourth Nominees Pty Ltd	12,076,123	1.22%
GSM Superannuation Pty Ltd ACN 120 470 813 <The Gordon Merchant Super A/C>	10,344,828	1.04%
Grahger Capital Securities Pty Ltd	10,000,000	1.01%
Grahger Capital Securities Pty Ltd	5,000,000	0.50%
Mr Michael Mcauliffe & Ms Colette Paull	4,723,600	0.48%
GSM Superannuation Pty Ltd <Gordon Merchant Super A/C>	3,469,950	0.35%
HSBC Custody Nominees (Australia) Limited - A/C 2	3,206,907	0.32%
HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	3,147,661	0.32%
GSM Pty Ltd	3,119,867	0.32%
BNP Paribas Noms Pty Ltd <DRP>	3,030,051	0.31%
Billytoo Pty Ltd <The Collette Paull Fam A/C	2,792,867	0.28%
	797,599,644	80.54%

Unquoted Equity Securities	Number on issue	Number of holders

Options issued under the Executive Performance and Retention Plan as approved by shareholders at the Annual General Meeting on 28 October 2008:

Class – BBGAI	314,503	1

The options listed above are the only unquoted equity securities on issue.

The following people hold 20% or more of these securities:

Class – BBGAI	Shannan North	314,503

Options issued under the refinancing proposal as announced to the Australian Securities Exchange on 16 July 2013:

Class – BBGAO	42,259,790	3

The following entities hold 20% or more of these securities:

Class – BBGAO	ACP Burleigh Holdings, LLC	7,747,628
	FS Investment Corporation	17,256,081
	FS Investment Corporation II	17,256,081

Options issued under the recapitalisation proposal as announced to the Australian Securities Exchange on 19 September 2013:

Class – BBGAQ	29,581,852	2

The following entities hold 20% or more of these securities:

Class – BBGAQ	CCP II Dutch Acquisition – E, B.V.	14,790,926
	OCM Clean Wave Holdings B.V.	14,790,926

Options issued pursuant to the Company's Executive Option as announced to the Australian Securities Exchange on 6 February 2014:

Class – BBGAS	1,200,000	1

The following entities hold 20% or more of these securities:

Class – BBGAS	Patrick M, Tenore, Jr	1,200,000

Substantial Holders

As at 8 October 2014 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.	179,384,769	18.12%
OCM Clean Wave Holdings B.V.	179,384,769	18.12%
Gordon Stanley Merchant	97,082,594	9.80%

Voting Rights

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

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

(b) Options
No voting rights.

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

Shareholder Enquiries
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
Email:	web.queries@computershare.com.au

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 www.computershare.com.au/easyupdate/bbg 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 2014. 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.

NOTES

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