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Billabong International Limited

Preliminary Final Report

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Appendix 4E

Preliminary final report

Name of entity

BILLABONG INTERNATIONAL LIMITED

ABN

17 084 923 946

Financial year ended

30 JUNE 2008

Comparative Financial year ended

30 JUNE 2007

Results for announcement to the market

Results				\$A'000
Revenues from continuing operations	Up	10.1%	to	1,354,419
Profit from ordinary activities after tax attributable to members	Up	5.5%	to	176,380
Net profit for the period attributable to members	Up	5.5%	to	176,380

Dividends	Amount per security	Franked amount per security
Current period – 2008		
Final dividend – payable on 24 October 2008	28.5¢	28.5¢
Interim dividend – paid on 11 April 2008	27.0¢	27.0¢
Previous corresponding period – 2007		
Final dividend – payable on 16 October 2007	27.0¢	27.0¢
Interim dividend – paid on 10 April 2007	23.5¢	23.5¢
The Record date for determining entitlements to the final 2008 dividend is 26 September 2008.		

Brief explanation of any of the figures reported above:

Profit after tax for the year ended 30 June 2008 was \$176.4 million, an increase of 12.6% in constant currency terms (5.5% in reported terms) over the 2006-07 year (the prior year). Ignoring certain one-off tax benefits (\$7.8 million) in the prior year, underlying constant currency profit after tax growth was strong at 18.5%.

Consolidated income statement

	Consolidated	
	2008	2007
	\$'000	\$'000
Revenue from continuing operations	1,354,419	1,230,513
Cost of goods sold	(608,040)	(570,979)
Other income	---	671
Selling, general and administrative expenses	(399,411)	(355,483)
Other expenses	(76,420)	(63,422)
Finance costs	(24,986)	(19,486)
Profit before income tax	245,562	221,814
Income tax expense	(69,293)	(54,207)
Profit for the year	176,269	167,607
Loss/(Profit) attributable to minority interest	111	(359)
Profit attributable to members of Billabong International Limited	176,380	167,248
Earnings per security for profit attributable to the ordinary equity holders of the Company	Cents	Cents
Basic earnings per security	85.7	81.2
Diluted earnings per security	85.1	80.7

Consolidated balance sheet

	Consolidated	
	2008	2007
	\$'000	\$'000
ASSETS		
Current assets		
Cash and cash equivalents	128,477	113,212
Trade and other receivables	302,680	274,369
Inventories	209,701	171,833
Current tax receivables	8,106	---
Other	18,559	14,104
Total current assets	667,523	573,518
Non-current assets		
Receivables	7,677	12,875
Property, plant and equipment	134,120	106,991
Intangible assets	800,897	660,104
Deferred tax assets	12,008	35,371
Other	3,236	1,719
Total non-current assets	957,938	817,060
Total assets	1,625,461	1,390,578
LIABILITIES		
Current liabilities		
Trade and other payables	193,922	152,226
Borrowings	11,895	6,791
Current tax liabilities	---	2,420
Provisions	11,285	10,836
Total current liabilities	217,102	172,273
Non-current liabilities		
Borrowings	471,411	360,565
Deferred tax liabilities	55,223	78,727
Provisions and other payables	10,475	4,575
Deferred payment	76,147	14,755
Total non-current liabilities	613,256	458,622
Total liabilities	830,358	630,895
Net assets	795,103	759,683
EQUITY		
Contributed equity	316,317	316,174
Treasury shares	(24,896)	(19,708)
Option reserve	6,995	9,363
Other reserves	(41,441)	(21,940)
Retained profits	538,128	473,762
Parent entity interest	795,103	757,651
Minority interest	---	2,032
Total equity	795,103	759,683

Consolidated statement of changes in equity

	Consolidated	
	2008	2007
	\$'000	\$'000
Total equity at the beginning of the financial year	759,683	712,123
Cash flow hedge reserve movement, net of tax	(1,240)	(2,341)
Exchange differences on translation of foreign operations	(7,931)	(21,476)
Net investment hedge	(10,330)	1,258
Net (expense)/income recognised directly in equity	(19,501)	(22,559)
Profit for the year	176,269	167,607
Total recognised income for the year	156,768	145,048
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity, net of transaction costs	143	2,646
Dividends paid	(112,014)	(97,435)
Treasury shares purchased by employee share plan trusts	(10,751)	(7,726)
Option reserve in respect of employee share plan	3,195	5,027
Acquisition of subsidiary minority interest	(1,921)	---
	(121,348)	(97,488)
Total equity at the end of the financial year	795,103	759,683
Total recognised income and expense for the year is attributable to:		
Members of Billabong International Limited	156,879	144,689
Minority interest	(111)	359
	156,768	145,048

Consolidated cash flow statement

	Consolidated	
	2008	2007
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	1,340,297	1,185,739
Payments to suppliers and employees (inclusive of GST)	(1,108,720)	(988,119)
	231,577	197,620
Interest received	4,310	3,547
Other revenue	3,727	3,137
Finance costs	(25,305)	(17,087)
Income taxes paid	(61,102)	(96,008)
Net cash inflow from operating activities	153,207	91,209
Cash flows from investing activities		
Payments for purchase of subsidiaries and businesses, net of cash acquired	(90,688)	(22,604)
Payments for property, plant and equipment	(54,688)	(39,179)
Payments for intangible assets	(3,221)	(12,061)
Proceeds from sale of property, plant and equipment	1,730	382
Net cash outflow from investing activities	(146,867)	(73,462)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities	143	2,646
Payments for treasury shares held by employee share plan trusts	(10,751)	(7,726)
Proceeds from borrowings	338,327	285,416
Repayment of borrowings	(197,079)	(148,587)
Dividends paid	(112,014)	(97,435)
Net cash inflow from financing activities	18,626	34,314
Net increase in cash and cash equivalents	24,966	52,061
Cash and cash equivalents at the beginning of the year	113,212	67,855
Effects of exchange rate changes on cash and cash equivalents	(12,326)	(6,704)
Cash and cash equivalents at the end of the year	125,852 *	113,212

* The above figure is net of bank overdrafts. To reconcile to cash at the end of the financial year as shown in the consolidated balance sheet the above figure should be grossed up by \$2.6 million.

Note to the financial report

This Preliminary Final Report does not include all the notes of the type normally included in a Full Financial Report. Accordingly it is to be read in conjunction with the Full Financial Report for the year ended 30 June 2008.

Note 1. Business combinations

2008

(a) Summary of acquisitions

On 1 July 2007 GSM Trading (South Africa) Pty Ltd and GSM Manufacturing (South Africa) (Proprietary) Limited acquired the assets and certain liabilities of Billabong South Africa (Proprietary) Limited, Kustom and Palmers Surf (Proprietary) Limited, Country Feeling CC, Element Skateboards South Africa CC and Von Zipper South Africa CC.

On 1 September 2007 Xcel International, Inc and Seal Trademarks Pty Ltd acquired the assets and certain liabilities of Xcel Hawaii, Inc., KEM Hawaii Incorporated and MKD Wetsuits, Inc.

On 1 November 2007 GSM Trading (South Africa) Pty Ltd acquired the assets and certain liabilities of Country Feeling Shops CC, Magnatubes CC, Mimosa Surf Shop CC, Woodlands Surf Shop CC, Stellenbosch Surf Shop CC, Garden Route Surf Shop CC and Stamford Hill Surf Shop CC.

On 11 December 2007 GSM (Operations) Pty Ltd and Pineapple Trademarks Pty Ltd acquired the assets and certain liabilities of Tiger Lily Swimwear Pty Ltd.

On 15 May 2008 GSM (Operations) Pty Ltd and Pineapple Trademarks Pty Ltd acquired the assets and certain liabilities of Kirra Surf Pty Ltd, IP4K Pty Ltd, IP4L Pty Ltd and Local Knowledge (Aust) Pty Ltd.

On 1 June 2008 GSM Investments Ltd and Seal Trademarks Pty Ltd acquired the assets and certain liabilities of Grant Retail Corporation, BTS Retail, LLC, BHS Retail Associates, LLC, Quiet Flight Surf Shop, Inc, The Leasure Group, Inc., N.S.B. Quiet Flight, Inc., Amy Retail, LLC and A.C. Leasure, Inc.

The acquired businesses contributed revenues of \$60.1 million and net profit after tax of \$7.1 million to the Group for the period from acquisition to 30 June 2008.

Details of the aggregated fair value of the assets and liabilities related to these acquisitions are as follows:

	\$'000
Purchase consideration:	
Cash paid	90,606
Estimated cash payable	8,851
Estimated deferred payment	18,577
Direct costs paid and payable relating to the acquisitions	2,416
Total purchase consideration	120,450
Fair value of net identifiable assets acquired	28,133
Goodwill	92,317

Note to the financial report

Note 1. Business combinations (continued)

The goodwill is attributable to the high profitability of the acquired businesses and synergies expected to arise after the acquisition of the businesses.

(b) Assets and liabilities acquired

The aggregated fair value of identifiable assets and certain liabilities acquired are based on discounted cash flow models. The aggregated identifiable assets and liabilities arising from the acquisitions are as follows:

	Acquiree's carrying amount \$'000	Fair value \$'000
Cash and cash equivalents	1,903	1,903
Trade receivables	8,565	8,443
Inventory	13,079	12,721
Plant and Equipment	6,814	6,814
Prepayments	1,134	1,134
Deferred tax asset	---	24
Employee entitlements	(257)	(284)
Trade and other payables	(10,033)	(10,033)
Deferred tax liability	---	(326)
Identifiable intangible assets	---	7,737
Net identifiable assets acquired	21,205	28,133

In regards to the 'Billabong South Africa (Proprietary) Limited, Kustom and Palmers Surf (Proprietary) Limited, Country Feeling CC, Element Skateboards South Africa CC and Von Zipper South Africa CC', 'Xcel Hawaii, Inc., KEM Hawaii Incorporated and MKD Wetsuits, Inc' and 'Grant Retail Corporation, BTS Retail, LLC, BHS Retail Associates, LLC, Quiet Flight Surf Shop, Inc, The Leasure Group, Inc., N.S.B. Quiet Flight, Inc., Amy Retail, LLC and A.C. Leasure, Inc' acquisitions, in the event that certain specific conditions are achieved additional consideration may be payable in cash. If it becomes probable that additional consideration will be payable it will be brought to account as a component of the goodwill arising on the acquisition when the amount can be reliably measured. The Group will review the likelihood of these payments at future reporting dates.

The 'Tiger Lily Swimwear Pty Ltd' acquisition was disclosed provisionally in the interim financial report for the half-year ended 31 December 2007. The one significant adjustment to the provisional values disclosed in the interim financial report relates to the recognition of the intangible asset relating to the Tigerlily brand name which at acquisition date is considered to have a carrying value of \$3.6 million.

If the acquisitions had occurred on 1 July 2007, consolidated revenue and consolidated net profit after tax for the year ended 30 June 2008 would have been \$1,410.0 million and \$179.7 million respectively.

Other

The non-current deferred payment payable of \$76.1 million relates to the Nixon, Xcel and South Africa licensee acquisitions (2007: \$14.8m relates to Nixon). Included in 'trade and other payables' is deferred payment payable of \$10.4 million relating to Amazon and Quiet Flight (2007: nil).

Note to the financial report

Note 1. Business combinations (continued)

2007

(a) Summary of acquisition

On 1 November 2006 Amazon (New Zealand) Pty Ltd (previously Billabong New Zealand Pty Ltd) acquired the assets and certain liabilities of Amazon Group Limited. The acquired business contributed revenues of \$19.4 million and net profit after tax of \$1.9 million to the Group for the period from 1 November 2006 to 30 June 2007.

Details of the aggregated fair value of the assets and liabilities related to this acquisition are as follows:

	\$'000
Purchase consideration:	
Cash paid	22,380
Direct costs relating to the acquisition	233
Total purchase consideration	22,613
Fair value of net identifiable assets acquired	14,899
Goodwill	7,714

The goodwill is attributable to the high profitability of the acquired business and synergies expected to arise after the acquisition of the business.

(b) Assets and liabilities acquired

The aggregated fair value of identifiable assets and certain liabilities acquired are based on discounted cash flow models. The aggregated identifiable assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount \$'000	Fair value \$'000
Cash and cash equivalents	9	9
Inventory	9,874	9,874
Plant and equipment	3,951	3,951
Prepayments	80	80
Employee entitlements	(147)	(147)
Other liabilities	(68)	(68)
Identifiable intangible asset	---	1,200
Net identifiable assets acquired	13,699	14,899

The acquisition was disclosed provisionally in the interim financial report for the half-year ended 31 December 2006. The one adjustment to the provisional values disclosed in the interim financial report relates to the recognition of the intangible asset relating to the Amazon brand name which at acquisition date is considered to have a carrying value of NZD\$1.38 million or AUD\$1.2 million.

Note to the financial report

Note 1. Business combinations (continued)

In regards to the Amazon Group Limited acquisition, in the event that certain specific conditions are achieved additional consideration may be payable in cash. If it becomes probable that additional consideration will be payable it will be brought to account as a component of the goodwill arising on the acquisition when the amount can be reliably measured. The Group will review the likelihood of these payments at future reporting dates.

If the acquisition had occurred on 1 July 2006, consolidated revenue and consolidated profit after tax for the year ended 30 June 2007 would have been \$1,240.4 million and \$167.8 million respectively.

Consolidated retained profits	2008 \$'000	2007 \$'000
Retained profits at the beginning of the financial period	473,762	403,949
Net profit attributable to members	176,380	167,248
Net transfers to and from reserves	---	---
Net effect of changes in accounting policies	---	---
Dividends and other equity distributions paid or payable	(112,014)	(97,435)
Retained profits at end of financial period	538,128	473,762

Earnings per security (EPS)	2008	2007
Basic EPS	85.7 cents	81.2 cents
Diluted EPS	85.1 cents	80.7 cents
Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	205,753,609	205,859,969

NTA backing	2008	2007
Net tangible asset backing per ordinary security	(\$0.03)	\$0.48

Dividend payable

The final 2008 dividend is payable on 24 October 2008.

Dividend reinvestment plan

The Directors have approved the introduction of a dividend reinvestment plan to be implemented ahead of the final dividend to be paid on 24 October 2008. Billabong International Limited is providing this facility as an additional option available to shareholders and in response to requests from the Company's shareholders. Further details in relation to the dividend reinvestment plan will be communicated to shareholders shortly.

Total dividend per security (interim *plus* final)

	2008	2007
Ordinary securities	55.5¢	50.5¢

Final dividend on all securities

	2008 \$'000	2007 \$'000
Total	59,120	56,003

Control gained over entities having material effect

Name of entity (or group of entities)	NIL
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Loss of control of entities having material effect

Name of entity (or group of entities)	NIL
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Details of associates and joint venture entities

Name of entity (or group of entities)	NIL
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Comments on the results

A summary of consolidated revenues and results by significant geographical segments is set out below:

Segment	Segment revenues		Segment EBITDA*	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Australasia	412,693	353,628	110,081	93,223
Americas	620,487	604,567	112,013	111,948
Europe	314,438	264,716	68,004	50,310
Third party royalties	1,853	3,601	1,853	3,601
	1,349,471	1,226,512	291,951	259,082
Less: Net interest expense			(19,174)	(15,490)
Depreciation and amortisation			(27,215)	(21,778)
Profit from continuing operations before income tax expense			245,562	221,814
Income tax expense			(69,293)	(54,207)
Profit from continuing operations after income tax expense			176,269	167,607
Loss/(Profit) attributable to minority interest			111	(359)
Profit attributable to members of Billabong International Limited			176,380	167,248

* Segment Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) excludes inter-company royalties and sourcing fees and includes an allocation of head office corporate overhead costs (including international advertising and promotion costs).

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

Consolidated Result

Profit after tax for the year ended 30 June 2008 was \$176.4 million, an increase of 12.6% in constant currency terms (5.5% in reported terms) over the 2006-07 year (the prior year). Ignoring certain one-off tax benefits (\$7.8 million) in the prior year, underlying constant currency profit after tax growth was strong at 18.5%.

Reported profit after tax was significantly impacted by a strong appreciation in the AUD against the USD, with an average full-year rate of US89.6 cents compared to the prior average full-year rate of US78.4 cents, and to a lesser extent an appreciation in the AUD against the Euro.

Sales revenue of \$1,347.6 million, excluding third party royalties, represented an increase of 17.6% in constant currency terms (10.2% in reported terms) over the prior year. At a segment level, in constant currency terms, sales revenue in Australasia increased 18.1%, the Americas increased 16.1% and Europe increased 20.3% over the prior year.

Consolidated gross margins remained strong and strengthened to 54.9% compared to the prior year's 53.3%.

EBITDA increased to \$292.0 million, an increase of 19.9% in constant currency terms (12.7% in reported terms) over the prior year. The Europe segment was a highlight, with EBITDA growth of 36.7%, in constant currency terms.

The consolidated EBITDA margin of 21.7% increased by 0.5% compared to that of the prior year of 21.2%, principally due to segment mix with strong EBITDA growth and improving

Comments on the results (continued)

margins in Europe, and to a lesser degree Australasia, partially offset by slightly lower margins in the Americas.

Australasia

Compared with the prior year in constant currency terms, Australasian sales revenue was up 18.1% to \$412.7 million and EBITDA increased by 17.5% to \$110.1 million. EBITDA margins were slightly higher at 26.7% compared to 26.4% in the prior year, reflecting the segment's changing regional mix, a full twelve months of the Amazon retail business and the first time inclusion of sales from South Africa.

In AUD terms, sales revenue in Australasia increased 16.7% to \$412.7 million and EBITDA increased 18.1% to \$110.1 million.

Sales revenue growth in local currencies was particularly strong in New Zealand, Japan and Asia, with the latter territory delivering strong EBITDA growth following a period of investment.

Americas

Compared with the prior year, sales revenue increased 16.1% to US\$557.1 million (up from US\$479.7 million) and EBITDA rose 16.0% to US\$100.8 million (up from US\$86.7 million). EBITDA margins were slightly lower at 18.1% compared to 18.5% in the prior year, partially due to growing contributions from the lower margin South American business.

In AUD terms, sales revenue in the Americas increased 2.6% to \$620.5 million and EBITDA of \$112.0 million was 0.1% higher than the prior year.

Strong double digit sales revenue growth in constant currency terms was achieved in all regions of the Americas.

Europe

Compared with the prior year, sales revenue increased 20.3% to €191.0 million (up from €158.8 million) and EBITDA rose 36.7% to €41.2 million (up from €30.2 million). EBITDA margins lifted to 21.6% up from 19.0% in the prior year, driven by a combination of operational synergies and product purchasing benefits due to the stronger Euro against the USD.

In AUD terms, sales revenue in Europe was \$314.4 million, an 18.8% increase and EBITDA showed strong growth of 35.2% to \$68.0 million.

Italy and Germany both recorded strong double digit sales revenue growth, while trading conditions in the United Kingdom remained difficult.

Europe's strong sales revenue and EBITDA result demonstrates continued strong business performance and positions the region well for 2009.

Net Interest Expense

Net interest expense growth of 23.8% was driven by the capital expenditure requirements for acquisitions and organic retail store expansion, together with increased working capital requirements to support both organic growth as well as acquired businesses.

Depreciation and Amortisation Expense

Depreciation and amortisation expense growth of 25.0% was principally driven by both acquisitions and retail store expansion.

Comments on the results (continued)

Income Tax Expense

The income tax expense for the year ended 30 June 2008 is \$69.3 million (2007: \$54.2 million), an effective rate of tax of 28.2% (2007: 24.4%).

The following one-off items had a significant impact in determining the prior year's income tax expense for the Group:

- (a) Intra-group royalties – as part of a continuing comprehensive review the Group has made a number of changes to its intra-group royalties. In relation to royalties received from the USA a bilateral Advanced Pricing Agreement (APA) has been entered into with both the Australian Tax Office (ATO) and the United States Internal Revenue Service (US IRS) covering the period 1 July 2005 to 30 June 2010. A similar process is underway with the French Taxation Authority (FTA) in France. The total tax benefit that was recognised in the financial year ended 30 June 2007 was \$10.8 million. Of the total tax benefit, \$7.5 million related to the 30 June 2007 financial year (\$4.8 million in respect of North America; \$2.7 million in respect of Europe) and \$3.3 million (all in respect of North America) related to the 30 June 2006 financial year;
- (b) Timing of recognition of royalty income – a revision of the Group's method for recognising royalty income earned for income tax purposes from a cash to accruals basis resulted in a non-recurring benefit of \$4.5 million in the 30 June 2007 financial year. This benefit has been fully recognised in the 30 June 2007 financial year.

Excluding all non-recurring (\$4.5 million) and prior year (\$3.3 million) taxation benefits mentioned above, the Group's effective tax rate would have been 28.0% for the financial year ended 30 June 2007.

Consolidated Balance Sheet, Cash Flow Items and Capital Expenditure

Working capital (including factored receivables) at \$339.7 million increased 19.7% over the prior year compared to revenue growth of 17.6% in constant currency terms, in part reflecting the impact of the acquisitions made by the Group.

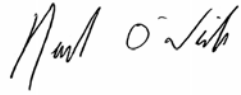
Cash flow from operations of \$153.2 million represents a 68.0% increase over the prior year period driven by both higher net cash receipts and the timing of income tax payments in the prior year. Net cash receipts of \$231.6 million are 17.2% higher than the prior year period.

Capital expenditure of \$146.9 million was in accordance with expectations and includes the acquisitions of Billabong's licensee in South Africa, Xcel Wetsuits, Tigerlily and Quiet Flight, together with general investment in owned retail globally.

Net debt increased to \$354.8 million, but is still relatively low at a debt to debt plus equity ratio of 30.9% and interest cover of 11.1 times.

Compliance statement

This preliminary final report is based on accounts which have been audited. The audit report, which was unqualified, will be made available with the Company's annual report.



Signed:

Date: 22 August 2008

Derek O'Neill
Chief Executive Officer