

BILLABONG INTERNATIONAL LIMITED ABN 17 084 923 946

**BILLABONG.**  
**FULL FINANCIAL**

*Report* 09  
10





## CORPORATE *directory*

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### DIRECTORS

Ted Kunkel, Non-Executive Chairman  
 Derek O'Neill, Chief Executive Officer  
 Tony Froggatt, Non-Executive Director  
 Margaret Jackson, AC, Non-Executive Director  
 Allan McDonald, Non-Executive Director  
 Gordon Merchant, AM, Non-Executive Director  
 Paul Naude, Executive Director  
 Colette Paull, Non-Executive Director

### COMPANY SECRETARY

Maria Manning, B.Bus (Acc), CPA and FCIS

### SENIOR MANAGEMENT

Chief Executive Officer: **Derek O'Neill**  
 Chief Financial Officer: **Craig White**  
 General Manager, Billabong Australasia: **Shannan North**  
 General Manager, Billabong Europe: **Franco Fogliato**  
 General Manager, Billabong North America: **Paul Naude**  
 General Manager, Billabong South America: **Chris Kypriotis**

### PRINCIPAL AND REGISTERED OFFICE

1 Billabong Place  
 BURLEIGH HEADS QLD 4220 AUSTRALIA  
 Telephone: +61 7 5589 9899  
 Facsimile: +61 7 5589 9800

### POSTAL ADDRESS

PO Box 283  
 BURLEIGH HEADS QLD 4220 AUSTRALIA

### INTERNET

Corporate: [www.billabongbiz.com](http://www.billabongbiz.com)  
 Marketing: [www.billabong.com](http://www.billabong.com)

### SHARE REGISTRY

Computershare Investor Services Pty Limited  
 GPO Box 523 BRISBANE QLD 4001  
 Telephone Australia: 1 300 552 270  
 Telephone International: +61 7 9415 4000  
 Facsimile: +61 7 3237 2152  
 Email: [web.queries@computershare.com.au](mailto:web.queries@computershare.com.au)

### AUDITORS

PricewaterhouseCoopers  
 Riverside Centre  
 123 Eagle Street BRISBANE QLD 4000

### SOLICITORS

Allens Arthur Robinson  
 Level 28, Deutsche Bank Place  
 Corner of Hunter & Phillip Streets SYDNEY NSW 2000

### Clayton Utz

71 Eagle Street BRISBANE QLD 4000

### Freehills

101 Collins Street MELBOURNE VIC 3000

### Minter Ellison

159 Varsity Parade VARSITY LAKES QLD 4227

### BANKERS

Australia and New Zealand Banking Group Limited  
 324 Queen Street BRISBANE QLD 4000

### Bank of America Merrill Lynch

19 Martin Place SYDNEY NSW 2000

### Commonwealth Bank of Australia

240 Queen Street BRISBANE QLD 4000

### HSBC Bank Australia Limited

HSBC Building 300 Queen Street BRISBANE QLD 4000

### National Australia Bank Limited

100 Creek Street BRISBANE QLD 4000

### Societe Generale

RESO/CLT/ENT  
 TOUR GRANITE  
 17 cours VALMY  
 75886 PARIS Cedex 18 FRANCE

### Westpac Banking Corporation

260 Queen Street BRISBANE QLD 4000

### STOCK EXCHANGE LISTING

Billabong International Limited shares are listed on the Australian Securities Exchange. The home branch is Brisbane. Ticker: BBG

### ANNUAL GENERAL MEETING

The Annual General Meeting of Billabong International Limited will be held in the Surfers Paradise rooms I & II at Jupiters, Broadbeach Island, Broadbeach, Qld, on Tuesday 26 October 2010 commencing at 10.00am. A formal Notice of Meeting and Proxy Form will be made available to all shareholders.

 **BILLABONG.**

 **ELEMENT**

 **VONZIPPER**

 **KUSTOM**

 **PALMERS**

 **HONOLUA**  
SURF CO.



 **XCEL**

 **Tigerlily**

 **SECTOR**

 **DAKINE**

 **RVCA**

# Billabong International Limited

ABN 17 084 923 946

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**:: FULL FINANCIAL REPORT  
2009 - 10**

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## Directors' report : :

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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 2010.

### Directors

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

E.T. Kunkel  
D. O'Neill  
A. G. Froggatt  
M.A. Jackson  
F.A. McDonald  
G.S. Merchant  
P. Naude  
C. Paull

### Principal activities

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

### Dividends – Billabong International Limited

Dividends paid to members during the financial year were as follows:

	<b>\$'000</b>
• Final ordinary dividend partially franked to 50% for the year ended 30 June 2009 of 18.0 cents per fully paid share paid on 23 October 2009	45,363
• Interim ordinary dividend partially franked to 50% for the year ended 30 June 2010 of 18.0 cents per fully paid share paid on 22 April 2010	45,515
	<u>90,878</u>

In addition to the above dividends, since the end of the financial year the Directors have resolved to pay a final ordinary dividend partially franked to 50% of \$45.6 million (18.0 cents per fully paid share) to be paid on 22 October 2010 out of retained profits at 30 June 2010.

The unfranked portion of the dividend is declared to be conduit foreign income. Australian dividend withholding tax is not payable by non-resident shareholders on the unfranked portion of the dividend sourced from conduit foreign income.

The Dividend Reinvestment Plan ("DRP") was approved by the Directors on 21 August 2008. For the final dividend to be paid on 22 October 2010, the DRP is optional and offers ordinary shareholders the opportunity to acquire fully paid ordinary shares which rank equally with all other shares issued, without transaction costs, at the prevailing market value. A shareholder can elect to participate in or terminate their involvement in the DRP in respect of the 2010 final dividend at any time prior to the record date of 24 September 2010. The DRP in relation to the 2010 final dividend will not be underwritten. The terms of the DRP may be varied for future dividends beyond the final dividend for the year ended 30 June 2010.

## Review of operations

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

Segment	Segment revenues		Segment EBITDA*	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Australasia	425,663	444,260	89,175	100,378
Americas	712,633	836,836	92,311	99,911
Europe	344,023	387,966	69,847	82,352
Third party royalties	2,009	2,189	2,009	2,189
	<u>1,484,328</u>	<u>1,671,251</u>	<u>253,342</u>	<u>284,830</u>
Less: Net interest expense			(14,739)	(31,173)
Depreciation and amortisation			(35,572)	(38,134)
Impairment charge			---	(9,476)
Profit from continuing operations before income tax expense			203,031	206,047
Income tax expense			(57,865)	(53,208)
Profit from continuing operations after income tax expense			<u>145,166</u>	<u>152,839</u>
Loss attributable to non-controlling interest			822	---
Profit attributable to members of Billabong International Limited			<u>145,988</u>	<u>152,839</u>
Add back: Post tax impairment charge			---	7,396
Profit attributable to members of Billabong International Limited before impairment charge			<u>145,988</u>	<u>160,235</u>

\* Segment Earnings Before Interest, Taxes, Depreciation and Amortisation ("EBITDA") excludes inter-company royalties and sourcing fees and includes an allocation of global overhead costs (which include corporate overhead, international advertising and promotion costs, central sourcing costs and foreign exchange movements).

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

### Consolidated Result

Net profit after tax ("NPAT") for the year ended 30 June 2010 was \$146.0 million, an increase of 8.1% in constant currency terms (a decrease of 4.5% in reported terms) compared with the 2008/09 year (the prior year). Excluding the after tax impact of an impairment charge expense of \$7.4 million in the prior year, NPAT for the year ended 30 June 2010 increased 3.1% in constant currency terms (decreased 8.9% in reported terms) compared with the prior year. After adding back one-off post-tax acquisition transaction costs of \$2.7 million, which under new accounting standard requirements now have to be expensed and cannot be capitalised, constant currency NPAT growth lifts to 5.0% compared with the prior year excluding the prior year impairment charge.

Reported NPAT was adversely impacted in particular by the unfavourable effect of the appreciation of the AUD against the USD and the Euro relative to the prior year, generally subdued trading conditions at a consumer level, especially in North America, Japan, New Zealand and South Africa, offset in part by overhead reductions across the business.

Sales revenue of \$1,482.3 million, excluding third party royalties, was in line with the prior year in constant currency terms (down 11.2% in reported terms). At a segment level, in constant currency terms, sales revenue in Europe increased 5.2%, the Americas decreased 1.2% and Australasia decreased 1.9% over the prior year.

Consolidated gross margins strengthened to 54.4% compared with the prior year's 53.2%, reflecting improved gross margins in North America in a less promotional environment.

EBITDA of \$253.3 million represented a decrease of 0.9% in constant currency terms (a decrease of 11.1% in reported terms) compared with the prior year principally reflecting the unfavourable impact of the appreciation of the AUD against the USD and the Euro relative to the prior year and the generally subdued trading environment.

The consolidated EBITDA margin of 17.1% was in line with the prior year.

### Segment Analysis

In addition to the specific factors discussed by segment below, EBITDA margins have been affected by the allocation of global overhead costs (which include corporate overhead, international advertising and promotion costs, central sourcing costs and foreign exchange movements) and the allocation of these costs to each segment. The increase in global overhead costs compared with the prior year is primarily attributable to foreign exchange movements and a change in the accounting standards which require transaction costs attributable to acquisitions to be expensed rather than capitalised as has historically been the treatment.

**Review of operations (continued)***Australasia*

Compared with the prior year in reported terms, sales revenue decreased 4.2% to \$425.7 million (down from \$444.3 million) and EBITDA decreased 11.2% to \$89.2 million (down from \$100.4 million). EBITDA margins were lower at 20.9% compared with 22.6% in the prior year, primarily reflecting the abovementioned impact of the allocation of global overhead costs. Excluding the allocation of global overhead costs, EBITDA margins were slightly lower at 24.0% compared with 24.7% in the prior year.

In constant currency terms, sales revenue decreased 1.9% and EBITDA decreased 10.3%.

Sales revenue in Australia was in line with the prior year while trading results in Japan, New Zealand and South Africa were weaker. The Group commenced operations in Thailand and South Korea and the results for both of these territories were in line with expectations.

*Americas*

Compared with the prior year in reported terms, sales revenue decreased 14.8% to \$712.6 million (down from \$836.8 million) and EBITDA decreased 7.6% to \$92.3 million (down from \$99.9 million). EBITDA margins showed improvement at 13.0% compared with 11.9% in the prior year, reflecting the impact of strategies adopted by management. Excluding the allocation of global overhead costs, the improvement in EBITDA margins was stronger at 16.0% compared with 14.0% in the prior year.

In constant currency terms, sales revenue decreased 1.2% and EBITDA increased 5.4%.

Strong sales revenue growth was achieved in South America.

*Europe*

Compared with the prior year in reported terms, sales revenue decreased 11.3% to \$344.0 million (down from \$388.0 million) and EBITDA decreased 15.2% to \$69.8 million (down from \$82.4 million). EBITDA margins of 20.3% were down on the prior year of 21.2%, primarily reflecting the abovementioned impact of the allocation of global overhead costs. Excluding the allocation of global overhead costs, EBITDA margins were slightly higher at 23.4% compared with 23.3% in the prior year.

In constant currency terms, sales revenue increased 5.2% and EBITDA increased 5.1%.

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

*Depreciation and Amortisation Expense*

Depreciation and amortisation expense decrease of 6.7% in reported terms (increase of 5.8% in constant currency terms) was principally driven by both acquisitions and retail store expansion.

*Impairment Charge Expense*

There is no impairment charge expense in the year ended 30 June 2010 however in the prior year, as a result of the impairment review of retail store assets, certain assets were written down to their recoverable amount, being their value-in-use. For the prior year, this resulted in a pre-tax impairment charge in respect of retail stores which amounted to \$9.5 million.

*Net Interest Expense*

The decrease in net interest expense of 52.7% in reported terms (45.9% in constant currency terms) compared with the prior year was principally driven by a reduction in borrowings as a result of the repayment of debt from the proceeds received from the capital raising announced in May 2009, together with several initiatives which have been implemented to improve treasury management efficiency across the Group.

*Income Tax Expense*

The income tax expense for the year ended 30 June 2010 is \$57.9 million (2009: \$53.2 million), an effective rate of tax of 28.5% (2008: 25.8%). The higher effective tax rate reflects the impact of several one-off tax adjustments included in the prior year. Adjusting for these one-off tax adjustments, the effective tax rate in the prior year would have been approximately 28.0%.

**Review of operations (continued)**

In addition to the bilateral Advanced Pricing Agreement the Group has in place with both the Australian Tax Office and the United States Internal Revenue Service, on 2 July 2009 a unilateral Advanced Pricing Agreement was entered into with the French Taxation Authority in France in relation to the royalty rate used by GSM (Europe) Pty Ltd for the right to use certain Group brands and trademarks. This agreement will cover the period 1 July 2006 to 30 June 2011 and provides certainty for the Group in respect of royalties being paid in accordance with French transfer pricing rules and regulations.

*Consolidated Balance Sheet, Cash Flow Items and Capital Expenditure*

Working capital at \$422.4 million represents 28.3% as a percentage of the prior twelve months' sales stated at year end exchange rates, being in line with the prior year.

Cash flow from operations of \$187.2 million represents a 6.6% increase over the prior year driven by lower finance cost payments. Net cash receipts of \$252.1 million are slightly lower than the prior year reflecting the lower reported EBITDA result. Overall the Group delivered a stronger cash flow result compared with the prior year as demonstrated by net cash receipts from customers and payments to third parties representing 100% of EBITDA compared with 91% for the prior year.

Cash outflow from investing activities of \$105.8 million was in accordance with expectations and includes the acquisition of the United States based online boardsports retailer *swell.com* as announced on 24 November 2009, the acquisition of an interest in the Australian based online boardsports retailer *surfstitch.com* as announced on 23 December 2009, the second instalment payment for the DaKine acquisition and investment in owned retail globally.

Net debt decreased 3.7% to \$216.7 million over the prior year. The Group has a conservative gearing ratio (net debt to net debt plus equity) of 15.1% (16.0% in the prior year) and strong interest cover of 12.6 times (7.1 times in the prior year).

On 4 August 2010, the Group renegotiated its Syndicated Revolving Multi-Currency Facility which included:

- an increase in the total facility balance from US\$483.5 million to US\$790.0 million to be split equally between the two tranches under the facility;
- an extension to 1 July 2013 of the three year tranche of the facility, to remain a three year facility; and
- an extension to 1 July 2014 of the three year tranche of the facility, to become a four year facility.

The renegotiation of this facility provides the Group with improved tenor, lower borrowing margins compared to those available when the Group rolled-over a portion of the facility on 11 August 2009, the capacity to fund the forecast requirements of the Group over the four year business plan period, while retaining conservative headroom available under the facility over this period.

**Significant changes in the state of affairs**

There were no significant changes in the state of affairs of the Group during the financial year.

**Matters subsequent to the end of the financial year**

On 30 June 2010, the Group announced that it had entered into a definitive acquisition agreement with West 49 Inc, a leading Canadian speciality retailer of apparel, footwear, accessories and equipment related to the youth action sports lifestyle. The operating results and certain assets and liabilities of the business will be consolidated from the time all conditions required for contractual completion have been satisfied, therefore the financial effects of the transaction have not been brought to account at 30 June 2010. It is anticipated the acquisition will be completed by the end of August 2010, subject to the approval of not less than two-thirds of the votes cast by West 49 securityholders at a special meeting to be held on 24 August 2010.

The purchase price represents an enterprise value of C\$99.0 million (A\$110.4 million) based on a fully diluted equity value of approximately C\$90.2 million (A\$100.6 million) and net debt of C\$8.8 million (A\$9.8 million) as of 30 April 2010. The transaction will be funded from the Group's existing debt facilities.

On 12 July 2010, the Group announced the acquisition of RVCA, a progressive art and design-driven brand. The conditions for contractual completion were satisfied on 21 July 2010 and therefore the financial effects of the transaction have not been brought to account at 30 June 2010.

**Matters subsequent to the end of the financial year (continued)**

On 4 August 2010, the Group renegotiated its Syndicated Revolving Multi-Currency Facility which included:

- an increase in the total facility balance from US\$483.5 million to US\$790.0 million to be split equally between the two tranches under the facility;
- an extension to 1 July 2013 of the three year tranche of the facility, to remain a three year facility; and
- an extension to 1 July 2014 of the three year tranche of the facility, to become a four year facility.

On 20 August 2010, the Group announced that it had reached conditional agreement to acquire the 36-door Rush Surf retail chain in Australia. It is anticipated that the purchase will complete in October 2010 and therefore the financial effects of the transaction have not been brought to account at 30 June 2010.

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 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**

Looking ahead, in the absence of any further unforeseen, exceptional circumstances impacting the global boardsports market, the Group is providing a range within which it expects to perform in the 2010/11 financial year. At this time, NPAT in constant currency terms is expected to grow in the range of 2% to 8% compared with the prior year as an improving outlook in the Americas and continued strength in Europe is offset by a challenging market in the key territory of Australia. This earnings guidance, which reflects a reasonably flat expected EBIT result, higher interest costs and a lower effective tax rate, is expressed as a range due to continued volatility in the global markets in which the Group operates, in particular the Australian consumer market.

The Group views the 2010/11 financial year as a transition year, with various strategic moves enhancing its route to market to deliver its target consumer the compelling branded portfolio offer that the Group has developed over the past 10 years.

Thereafter, as the anticipated global recovery gradually takes hold, and given the successful execution of various strategic and operational initiatives, the Group expects to return, in the absence of further unforeseen, exceptional circumstances, to more historic EPS growth rates in excess of 10% per annum in constant currency terms.

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

**Environmental regulation**

The Group, while not subject to any significant environmental regulation or mandatory emissions reporting, voluntarily measures its carbon emissions using the *National Greenhouse and Energy Reporting Act 2007*.

**Information on Directors****TED KUNKEL** (*Non-Executive Chairman*)**Experience and expertise**

Previously the President and Chief Executive Officer of Foster's Group Limited and associated companies. Mr Kunkel has extensive international business experience. Appointed Non-Executive Director on 19 February 2001.

**Other current directorships**

None.

**Former directorships in last 3 years**

None.

**Special responsibilities**

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

**Interests in shares and options**

116,435 ordinary shares in Billabong International Limited.

**DEREK O'NEILL** (*Executive Director*)**Experience and expertise**

Derek O'Neill was appointed as Chief Executive Officer effective 1 January 2003. He has previously held senior management positions with Billabong, including General Manager of Billabong's European operations from 1992-2003. In 2002, Mr O'Neill was awarded a Chevalier d'Ordre de Merite Nationale for services to business in France. Appointed Executive Director on 5 March 2002.

**Other current directorships**

None.

**Former directorships in last 3 years**

None.

**Special responsibilities**

Chief Executive Officer.

**Interests in shares and options**

1,117,516 ordinary shares in Billabong International Limited.

216,237 share rights in Billabong International Limited.

629,007 options in Billabong International Limited.

**Information on Directors (continued)****TONY FROGGATT** (*Non-Executive Director*)**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. Appointed Non-Executive Director on 21 February 2008.

**Other current directorships**

Brambles Industries Limited, since 1 June 2006.  
AXA Asia Pacific Holdings Limited, since 16 April 2008.  
National Mutual Life Association of Australasia Ltd, since 16 April 2008.

**Former directorships in last 3 years**

Scottish and Newcastle PLC from 12 May 2003 to 31 October 2007.

**Special responsibilities**

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

**Interests in shares and options**

7,505 ordinary shares in Billabong International Limited.

**MARGARET JACKSON AC** (*Non-Executive Director*)**Experience and expertise**

Margaret Jackson was a Partner of KPMG Peat Marwick's Management Consulting Division and National Chairman of the KPMG Micro Economic Reform Group until 30 June 1992, when she resigned to pursue a full-time career as a company director. Ms Jackson was previously a Director of Australia and New Zealand Banking Group Limited, The Broken Hill Proprietary Company Limited, Pacific Dunlop Limited and Chairman of Qantas Airways Limited. Margaret is also President of Australian Volunteers International and the Advisory Board Chairman for the Salvation Army Southern Territory.

Margaret was awarded a Companion of the Order of Australia in the General Division (AC) in June 2003 for service to business in diverse and leading Australian corporations and to the community in the area of support for medical research, the arts and education. Appointed Non-Executive Director on 4 July 2000.

**Other current directorships**

FlexiGroup Limited, director and Chairman since 20 November 2006.

**Former directorships in last 3 years**

Australia and New Zealand Banking Group Limited, from 22 March 1994 to 21 March 2009.  
Qantas Airways Limited, Director from 1 July 1992 to 14 November 2007 and Chairman from 1 August 2000 to 14 November 2007.

**Special responsibilities**

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

**Interests in shares and options**

275,838 ordinary shares in Billabong International Limited.

**Information on Directors (continued)****ALLAN MCDONALD** (*Non-Executive Director*)**Experience and expertise**

Allan McDonald has extensive experience in the investment and commercial banking fields and is presently associated with a number of companies as a consultant and company Director. Appointed Non-Executive Director on 4 July 2000.

**Other current directorships**

Ross Human Directions Limited, Director and Chairman since 3 April 2000.

Multiplex Property Trust (Director of responsible entity, Brookfield Multiplex Funds Management Limited), director since 22 October 2003 and Chairman from May 2005.

Multiplex SITES Trust (Director of responsible entity, Brookfield Multiplex Funds Management Limited), director since 22 October 2003 and Chairman from May 2005.

Astro Japan Property Group (Director of responsible entity, Astro Japan Property Management Limited), director and Chairman since 19 February 2005.

Multiplex Acumen Property Fund, Multiplex European Property Fund and Multiplex Prime Property Fund (Director of responsible entity, Brookfield Multiplex Capital Management Limited) Director and Chairman since 1 January 2010.

**Former directorships in last 3 years**

Multiplex Limited, from 22 October 2003 to 31 October 2007.

**Special responsibilities**

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

**Interests in shares and options**

153,046 ordinary shares in Billabong International Limited.

**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. Appointed Non-Executive Director on 4 July 2000.

**Other current directorships**

Plantic Technologies Limited, since 12 April 2005.

**Former directorships in last 3 years**

None.

**Special responsibilities**

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

**Interests in shares and options**

37,770,098 ordinary shares in Billabong International Limited.

**Information on Directors (continued)****PAUL NAUDE** (*Executive Director*)**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. He has been involved in the surfing industry since 1973 with extensive experience in apparel brand management. Appointed Executive Director on 14 November 2002.

**Other current directorships**

None.

**Former directorships in last 3 years**

None.

**Special responsibilities**

General Manager, Billabong USA.

**Interests in shares and options**

1,105,988 ordinary shares in Billabong International Limited.

187,027 share rights in Billabong International Limited.

524,170 options in Billabong International Limited.

**COLETTE PAULL** (*Non-Executive Director*)**Experience and expertise**

Colette Paull was one of the earliest employees of the Billabong business in 1973. Since that time, Ms Paull has been broadly involved in the development of Billabong's business from its initial growth within Australia to its expansion as a global brand. Ms Paull previously held the position of Company Secretary until 1 October 1999. Appointed Non-Executive Director on 4 July 2000.

**Other current directorships**

None.

**Former directorships in last 3 years**

None.

**Special responsibilities**

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

**Interests in shares and options**

2,973,289 ordinary shares in Billabong International Limited.

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## Directors' report : :

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### Company Secretary

The Company Secretary is Ms Maria Manning B.Bus (Acc), CPA and FCIS. Ms Manning was appointed to the position of Company Secretary in April 2006. She has over 19 years experience as a Company Secretary of publicly listed companies in Australia.

### 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 2010, 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						
E.T. Kunkel	9	9	5	5	4	4	2	2	7	7
D. O'Neill	9	9	5	5	*	*	*	*	*	*
A.G. Froggatt	9	9	5	4	4	4	2	2	7	7
M.A. Jackson	9	9	5	5	4	4	2	2	7	7
F.A. McDonald	9	9	5	5	4	4	2	2	7	7
G.S. Merchant	9	9	5	4	4	4	2	2	7	7
P. Naude	9	9	5	4	*	*	*	*	*	*
C. Paull	9	9	5	5	4	4	2	2	7	7

\* Not a member of the relevant Committee.

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## Remuneration report

### A letter from our Human Resource and Remuneration Committee Chair (unaudited)

Dear Shareholders,

Director and executive pay has grown in complexity over recent years. At Billabong International Limited, we await with interest the changes that may result from the ongoing reviews initiated by the Government. In the interim, through this letter, I would like to take the opportunity to explain to you our approach as simply as possible.

At our Annual General Meeting you will be able to seek further clarity through asking any questions you may have.

#### Our executives

We have a strong and stable executive team. Together, the executive team has over 58 years of experience with the Billabong Group. The remuneration approach is designed to ensure these individuals are retained and motivated to drive the future success of our company.

The approach is kept under review to ensure it meets the needs of the business and shareholders. At the same time, we are conscious of the practices of other Australian companies and our local and overseas apparel competitors. This review process is essential to keep our remuneration offering relevant and competitive.

As a result of the most recent review, we are making a change to ensure appropriate rewards for performance in what remains an uncertain and volatile market. For some executives, where current contractual arrangements permit, we will be reducing the portion based on the long-term incentive and increasing the short-term incentive. A portion of the short-term incentive earned will now be delivered in shares (or a 'promise' of shares, depending on location) after two years.

Our approach to incentives will therefore consist of:

- A short-term incentive of a bonus if financial and non-financial performance targets are achieved each year. Part of the bonus will be paid in cash and a portion in shares (or a 'promise' of shares, depending on location) after two years.
- A long-term incentive that provides either shares (or a 'promise' of shares depending on location). The shares are only earned if earnings per share targets are met.

In addition, the one-off share option plan for the five most senior executives continues to be in place. The plan's focus is shareholder returns and retention over a five-year period to 2013. The plan only rewards if challenging shareholder return growth targets are met and Billabong's return is in the top half of companies in the ASX 100.

The review also considered the overall remuneration opportunity available. Based on the findings, overall executive remuneration opportunities will increase for 2010/11 to reflect a shortfall relative to other Australian and overseas executives and the importance of the executive teams' value and contribution to Billabong. Billabong is consistently recognised as one of the best performing pure boardsports company globally and has developed one of the strongest portfolios of youth brands focussing on the action sports sector.

#### This year's outcomes

In terms of the year just completed, the executives have performed well under difficult market conditions. The reward potential of the long-term incentive plan was significantly impacted by the severity of the global financial crisis. In order to keep executives motivated, the Board focused attention on the short-term incentive targets (KPI's). The executives were set challenging KPI's based around achieving budgeted constant currency Net Profit After Tax (NPAT) and working capital targets, supply chain and operational improvements and other key business drivers. The Board also introduced an 'over performance' short-term incentive if specific additional financial achievements were reached. The executives performed well against the targets set and most of their KPI's were met however no 'over performance' targets were achieved.

In terms of long-term performance, the plan which was tested this year did not meet its targets and all awards made will not vest and will be forfeited. This is the second year where the long-term performance hurdles were not met and shares did not vest.

Inside our report we have added disclosure regarding the actual amounts earned by executives (in addition to the accounting value of remuneration). This is a voluntary additional disclosure (recommended by the Productivity Commission). We advised in last year's Remuneration Report that the Company had implemented a salary freeze on executive remuneration for the 2009/10 financial year. The table shows that remuneration earned in 2009/10 increased from the prior year. This increase was attributable to the performance against the short-term incentive targets noted above.

**Our non-executive directors**

The directors receive a base fee plus a fee for the committees of which they are members. We set these fees based on fees paid by similarly sized Australian companies.

The total amount that we pay to directors was approved by shareholders in 2005. This year, we are seeking approval from you to increase this pool. The new pool will provide us with flexibility over the next few years to make additions to the Board and periodically revise fee levels based on market rates.

We trust that the above provides you with a useful summary of our approach to ensuring we motivate and retain the required senior talent for our business. I look forward to any questions you may have at our Annual General Meeting.

Yours faithfully,

Margaret Jackson  
Chair of the Human Resources and Remuneration Committee

**Contents of this Remuneration Report (Audited)**

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.

The remuneration report is set out under the following main headings:

- A Executive remuneration policy
- B Overview of incentive plans
- C Remuneration outcomes for executives during the year, including an overview of the link between reward and performance
- D Summary of executive contracts
- E Non-executive Director fee policy and detail of fees paid during the year
- F Additional statutory disclosures

*A note regarding the scope of this report*

As required, the report provides detail in relation to Key Management Personnel ("KMP") and the five highest paid executives of the Group. The KMP are the Executive Directors, the Non-Executive Directors and certain executives that either report directly to the Chief Executive Officer or the General Manager of Billabong USA being:

<i>Name</i>	<i>Position</i>	<i>Employer</i>
F. Fogliato	General Manager, Billabong Europe	GSM (Europe) Pty Ltd
C. Kyriotis	General Manager, Billabong South Americas	GSM Brasil Ltda
S. North	General Manager, Billabong Australasia	GSM (Operations) Pty Ltd
J. Schillereff	President, Element Skateboards, Inc	Element Skateboards, Inc
C. White	Chief Financial Officer	GSM (Operations) Pty Ltd

In addition, the following person must be disclosed under the *Corporations Act 2001* as they are among the five highest remunerated Group executives:

<i>Name</i>	<i>Position</i>	<i>Employer</i>
E. Leasure	President, Quiet Flight	GSM Investments Ltd

**Remuneration report (continued)****A. Executive remuneration policy****Governance and objectives**

The Group's executive remuneration policy and frameworks are developed by the Human Resource and Remuneration Committee and approved by the Board. Input and guidance is provided by external consultants and management as appropriate. The Corporate Governance Statement provides further information on the role of this committee.

The overall aim of the Group's executive remuneration policy and framework is to retain the executive team and motivate them to drive the future success of the Group. To achieve this, the Group aims to provide market competitive reward opportunities to executives through market competitive fixed remuneration and an incentive framework that rewards appropriately for the results delivered and is aligned to the creation of value for shareholders. The policy and framework is kept under review to ensure it continues to meet the needs of the business and shareholders.

**Our remuneration principles**

- Provide a market competitive reward opportunity;
- Apply performance targets that take into consideration the Group's strategic objectives, business plan performance expectations and deliver rewards commensurate for achieving these objectives and targets;
- Ensure executives are able to have an impact on the achievement of performance targets;
- Align executive remuneration with the creation of shareholder value through providing a portion of the reward package as equity and using performance hurdles linked to shareholder return;
- Encourage the retention of executives and senior management who are critical to the future success of the Group; and
- Consider market practice and shareholder views in relation to executive remuneration, whilst ensuring that executive remuneration meets the commercial requirements of the Group.

**Our approach to setting remuneration levels**

The Committee considers the available market data for comparable roles both within general industry and within the apparel sector (domestically and globally). The predominant focus is placed on market rates of pay in the executives' country of location. Identifying appropriate matches is challenging and is further complicated by the fact that not all of our competitors are listed and therefore market data is not readily available.

When positioning against the available matches, the Committee generally aims to provide fixed remuneration at the median of the relevant market with a total remuneration opportunity at around the 75<sup>th</sup> percentile of the market.

Remuneration levels are reviewed annually and upon promotion. In 2009/10, a salary freeze was implemented.

Remuneration report (continued)

A. Executive remuneration policy (continued)

The components of Billabong executive remuneration

Component	Purpose
Fixed remuneration	For the completion of day-to-day accountabilities and behaving in accordance with the Group's culture and values.
Short-term incentive plan	To reward for meeting personal key performance indicators, achieving the Group's overall performance against the annual budget and regional budget expectations (if applicable to the role).  For the financial year 2010/11, a short-term incentive deferral is being implemented. A portion of the incentive earned will be delivered as equity which is deferred for 2 years. Due to current contractual arrangements the deferral will not be implemented for all executives.
Executive Performance Share Plan	<i>The plan has two variants. Tier 1 applies to the five most senior executives, while Tier 2 applies to all other plan participants.</i>  Tier 1: To provide an equity-based reward opportunity to executives based on the Group's three-year earnings per share performance.  Tier 2: To provide an equity-based retention opportunity based on continued service.

In addition, a one-off grant was made under the Executive Performance and Retention plan in the 2008/09 year. The purpose of this plan was to reward and retain selected executives over a five year period to the 2013/14 year for growing the market value of the Group and delivering returns to shareholders.

The mix of fixed and variable ('at risk') remuneration

The framework provides a mix of fixed and variable ('at risk') remuneration. As executives gain seniority within the Group, the balance of this mix shifts to a higher proportion of variable rewards to ensure the executive's total remuneration is linked to performance.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration	At risk – Short-Term Incentives	At risk – Long-Term Incentives *
<u>Executive Directors</u>			
D. O'Neill <i>Chief Executive Officer</i>	44%	41%	15%
P. Naude <i>General Manager Billabong USA</i>	50%	33%	17%
<u>Other Key Management Personnel</u>			
F. Fogliato	54%	29%	17%
C. Kypriotis	59%	35%	6%
S. North	54%	26%	20%
J. Schillereff	80%	10%	10%
C. White	56%	26%	18%
<u>Other Group Executives</u>			
E. Leasure	81%	15%	4%

\* Long-Term Incentives include options and rights. The percentages disclosed reflect the accounting charge recognised in the Group's income statement.

As noted in the Chair's letter, as a result of the most recent review, for some executives we are reducing the portion based on the long-term incentive and increasing the weighting of the short-term incentive with a deferral into shares.

**Remuneration report (continued)**

**A. Executive remuneration policy (continued)**

**Policy regarding mitigating the risk of any equity-based incentives**

Under the Group's Share Trading Policy, executives are prohibited from entering any personal transactions that reduce or eliminate the risk associated with equity-based incentives. Where an executive is in breach of this policy, the awards shall be forfeited or lapse as the case may be.

**B. Overview of incentive plans**

**Short-term incentive plan**

The short-term incentive (STI) plan delivers an annual cash reward based on the following performance hurdles measured in constant currency terms:

<b>Executive</b>	<b>Performance hurdles</b>
Chief Executive Officer and Chief Financial Officer	The Group NPAT performance, the Group working capital as a percentage of sales and personal performance objectives.
Regional General Managers	The Group NPAT performance, regional EBIT performance, regional working capital as a percentage of sales and personal performance objectives.
Other Senior Executives	Regional EBIT performance and personal performance objectives.

The performance hurdles were selected to focus executives on the strategic aims of the business, provide a line of sight (i.e. performance measures that they can impact through their performance) and ensure variable reward is only achieved when value has been created for shareholders.

Each executive has a target and a maximum opportunity that can be earned each year, subject to performance against the measures relevant to their role.

In accordance with the Human Resource and Remuneration Committee charter, subject to the Human Resource and Remuneration Committee's review of performance against each executive's performance targets, all bonuses are paid in early September of the following financial year.

Commencing for the financial year 2010/11, an STI deferral is being introduced. The STI deferral is being introduced as part of a change to ensure appropriate rewards for performance in what remains a volatile market. A portion of between 20% to 30% of the incentive earned will be deferred into equity. This will either be in the form of shares or rights depending on the executives' location (due to tax implications). The deferred equity will vest to participants after a period of 2 years. Due to current contractual arrangements the deferral will not be implemented for all executives.

**Executive Performance Share Plan**

The Executive Performance Share Plan delivers remuneration to executives in the form of equity-based reward opportunities. The aim of the plan is to focus executives on the Group's long-term performance. The plan was approved by shareholders at the 2004 Annual General Meeting and the grants to the Executive Directors are approved annually.

The plan awards either shares or conditional rights<sup>1</sup>, subject to the tax implications in the relevant jurisdiction:

- Shares: An executive awarded shares is not legally entitled to shares in the Company unless the relevant performance and service conditions are achieved, at which point the shares vest. However, the executive can vote and receive dividends in respect of performance shares allocated to them during the vesting period.
- Conditional rights: An executive awarded conditional rights is not legally entitled to shares in the Company unless the relevant performance and service conditions are achieved. Once the rights vest, each right entitles the executive to receive one share in the Company.

<sup>1</sup> Note that for the purposes of the remuneration tables in this report, shares and conditional rights are both referred to as "rights".

**Remuneration report (continued)**

**B. Overview of incentive plans (continued)**

There are two variations of the plan. Tier 1 applies to the five most senior executives, while Tier 2 applies to all other plan participants. The Tier 1 plan has an earnings per share (EPS) performance hurdle and vests after three years to the extent the hurdle is met. The Tier 2 plan is focused on retention and vests after two years subject to continued service.

*Detail regarding the Tier 1 performance period and hurdles*

The Committee selected EPS as the appropriate hurdle as the plan is intended to focus the executives on the long-term (three year) earnings performance of the Group.

Awards vest on the third anniversary of grant only if the EPS performance hurdles are satisfied in the relevant performance period. The performance periods for outstanding awards are summarised in the table below:

Grant	Performance period
2007/08	2006/07 (base year EPS) to 2009/10
2008/09	2007/08 (base year EPS) to 2010/11
2009/10	2008/09 (base year EPS) to 2011/12

Each year, prior to awards being granted, the 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. No retesting is permitted.

The targets and vesting schedule for the 2007/08 and the 2008/09 awards was disclosed in prior year Remuneration Reports. For the awards granted during 2009/10, the targets and vesting schedule were as follows:

- Minimum vesting (50%) for 6% EPS compound annual growth; and
- Maximum vesting (100%) for 10% or greater EPS compound annual growth.

Details of the performance targets for the 2010/11 awards are set out in the Notice of Meeting where we are seeking approval for the awards to the Executive Directors, Derek O'Neill and Paul Naude. The performance targets are the same for all Tier 1 participants and are unchanged from 2009/10.

At the end of the relevant performance period, the Human Resource and Remuneration Committee consider the EPS performance of the Group on both a reported and constant currency basis and determines to what extent the awards should vest based on the above vesting conditions.

For all executives, except those based in France, the vested shares are subject to a sales restriction which requires the individual to seek approval from the Board prior to sale. For the executive based in France, due to the social security and taxation laws, an additional 24 month restriction period is imposed.

**Executive Performance and Retention Plan**

The establishment of the Executive Performance and Retention Plan was approved at the Annual General Meeting ("AGM") of the Company held on 28 October 2008. The plan is designed to retain and effectively reward selected executives over a five year period for growing the market value of the Company and delivering returns to shareholders.

Under the Plan, the five most senior executives were granted options. Options granted under the Plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share upon receipt of funds. The options will only vest, and become exercisable, if certain performance hurdles are met and if the individual is still employed by the Group at the end of the vesting period. Once vested, the executive has two years to pay an exercise price to acquire the shares. Shareholder approval was obtained at the 2009 AGM to change the exercise price of options granted to take into account the Company's entitlement offer in May 2009.

**Remuneration report (continued)**

**B. Overview of incentive plans (continued)**

The performance hurdles that determine whether awards vest are based on 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 the end of year five; and
- Absolute TSR hurdle with a 120% target (equivalent to approximately 12.8% share price growth p.a. 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 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, this Plan 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.

**Additional equity arrangements for Billabong employees**

In order to encourage equity participation and an ownership culture, the Group operates a Tax Exempt Employee Share Plan and Tax Deferred Employee Share Plan for Australian based employees with at least 12 months service. The executives are eligible to participate in these plans. The plans operate as follows:

- Tax Exempt Employee Share Plan: Eligible employees can purchase a maximum of \$1,000 of ordinary shares in the Company (which includes a Group contribution of \$200) at a discount by voluntarily sacrificing either their base salary or bonus on a pre-tax basis.
- Tax Deferred Employee Share Plan: Eligible employees can purchase shares in the Company, at market value, by voluntarily sacrificing their base salary and/or bonus on a pre-tax basis. A minimum contribution amount of \$2,000 applies to the purchase of shares (with a maximum of up to \$4,800), with the Group contributing \$200 towards shares in the Company.

**Remuneration report (continued)****C. Remuneration outcomes for executives during the year, including an overview of the link between reward and performance****Overview of the link between reward and performance**

Two of the principles underlying our executive remuneration framework relate directly to how performance is applied:

- Apply performance targets that take into consideration the Group's strategic objectives, business plan performance expectations and deliver rewards commensurate for achieving these objectives and targets; and
- Align executive remuneration with the creation of shareholder value through providing a portion of the reward package as equity and using performance hurdles linked to shareholder return.

As described in the "Overview of Incentive Plans", these two principles were applied directly in the design of our framework.

**Overall remuneration earned for 2009/10**

In terms of the year just completed, the executives have performed well under difficult market conditions. The reward potential of the long-term incentive plan was significantly impacted by the severity of the global financial crisis. In order to keep executives motivated, the Board focused attention on the short-term incentive targets (KPI's). The executives were set challenging KPI's based around achieving budgeted constant currency NPAT and working capital targets, supply chain and operational improvements and other key business drivers. The Board also introduced an "over performance" short-term incentive if specific additional financial achievements were reached.

In terms of the short-term incentive outcomes, the executives performed well against the targets set and most of their KPI's were met however no "over performance" targets were achieved.

In terms of the long-term incentives, the relevant metrics are EPS (for the Executive Performance Share Plan) and absolute and relative Total Shareholder Return, which are based on share price and dividends (for the Executive Performance and Retention Plan). Against these measures, despite the Group performing well this year in a challenging market environment, neither of the two long-term incentive plans met their performance hurdles and no awards vested to participants:

- The Executive Performance Share Plan grant made in 2007/08 was tested. Compound EPS growth for the period did not meet the threshold performance target of 10% p.a. No reward has been earned and the awards lapse.
- The one-off Executive Performance and Retention Plan grant was made in 2008. The plan is currently in the first three year window and the target for vesting the first third of the award is an absolute total shareholder return of 80%. This target has not yet been met and no amounts have yet vested.

The following table C.1 summarises the remuneration earned by each executive (i.e. the cash values received and the value of shares that vested during the year). We note that these values differ from the accounting values presented in the subsequent table C.2.

Remuneration report (continued)

**C. Remuneration outcomes for executives during the year, including an overview of the link between reward and performance (continued)**

Table C.1:

Name		Base salary \$'000	Short-term incentive earned \$'000	Non- monetary benefits \$'000	Long-term incentives (value vested during the year) \$'000	Super- annuation \$'000	Total Remuneration realised \$'000
D. O'Neill	2010	1,142	1,119	5	---	14	2,280
	2009	1,144	578	3	525*	13	2,263
P. Naude ^	2010	1,036	695	16	---	3	1,750
	2009	1,208	401	19	525*	4	2,157
F. Fogliato ^	2010	521	284	10	---	---	815
	2009	611	317	13	175*	---	1,116
C. Kyriotis ^	2010	374	248	24	---	19	665
	2009	386	169	22	122*	18	717
E. Leasure ^	2010	566	110	15	---	---	691
	2009	687	11	17	---	---	715
S. North	2010	570	277	4	---	14	865
	2009	564	200	5	257*	14	1,040
J. Schillereff ^	2010	505	68	16	---	3	592
	2009	589	53	18	90*	3	753
C. White	2010	667	324	2	---	14	1,007
	2009	661	334	2	315*	14	1,326

\* Based on 2005/06 grant which was tested based on financial performance to 30 June 2008 which vested at 87.5% in the financial year ended 30 June 2009 assuming a share price of \$13.18 (price when awarded).

^ Remuneration impacted by exchange rate fluctuations.

**Five year performance and reward relationship**

The overall level of executive reward takes into account the performance of the Group over a number of years. Over the past five years, the Group's profit from ordinary activities after income tax has grown at a compound rate of 3.1% per annum, and shareholder wealth has grown at a compound rate of (5.1%) per annum, assuming all dividends are re-invested back into Billabong International Limited shares on the payment date. During the same period, executive remuneration has grown at a compound rate of 1.4% per annum.

**Remuneration disclosure for 2009/10 (and comparatives)**

The following Table C.2 sets out the remuneration for executives based on the accounting disclosure requirements. We note that the share-based payments are based on the accounting expense incurred by the Company for the year and not the value received by the executive. Further total remuneration, is based on the inclusion of the accounting value for the share-based payments. The actual values that vested to individuals in the year were disclosed in Table C.1 above.

## Remuneration report (continued)

## C. Remuneration outcomes for executives during the year, including an overview of the link between reward and performance (continued)

Table C.2:

Name		Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total Remuneration \$'000
		Cash salary \$'000	Cash bonus \$'000	Non-monetary benefits \$'000	Super-annuation \$'000	Long service leave \$'000	Options * \$'000	Rights \$'000	
<b>Executive Directors</b>									
D. O'Neill	<b>2010</b>	1,142	1,119	5	14	39	286	146**	2,751
	2009	1,144	578	3	13	19	190	(249)***	1,698
P. Naude	<b>2010</b>	1,036	695	16	3	---	238	126**	2,114
	2009	1,208	401	19	4	---	159	(227)***	1,564
<b>Other Key Management Personnel</b>									
F. Fogliato ^	<b>2010</b>	521	284	10	---	---	91	72**	978
	2009	611	317	13	---	---	53	(111)***	883
C. Kyriotis ^	<b>2010</b>	374	248	24	19	---	---	37**	702
	2009	386	169	22	18	---	---	(66)***	529
S. North ^	<b>2010</b>	570	277	4	14	---	143	73**	1,081
	2009	564	200	5	14	8	95	(120)***	766
J. Schillereff	<b>2010</b>	505	68	16	3	---	---	63**	655
	2009	589	53	18	3	---	---	(8)***	655
C. White ^	<b>2010</b>	667	324	2	14	9	143	84**	1,243
	2009	661	334	2	14	4	95	(146)***	964
<b>Other Group Executives</b>									
E. Leasure ^	<b>2010</b>	566	110	15	---	---	---	31**	722
	2009	687	11	17	---	---	---	16***	731
<b>Total</b>									
	<b>2010</b>	5,381	3,125	92	67	48	901	632**	10,246
	2009	5,850	2,063	99	66	31	592	(911)***	7,790

^ Denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001*.

\* Remuneration in the form of options relates to the 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 Executive Performance and Retention Plan. The accounting charge is reflected as an expense in the financial statements regardless of whether the Executive Performance and Retention Plan may fully vest, partially vest or not vest at all.

\*\* Remuneration in the form of rights relates to the accounting charge recognised in the Group's income statement in respect of the Executive Performance Share Plan. The accounting charge reflects at this point in time the most probable likelihood of the 2008/09 and 2009/10 grants vesting to the individual. It should also be noted, the 2007/08 grant was tested based on financial performance to 30 June 2010, the performance hurdles were not achieved and therefore no shares will vest.

\*\*\* Remuneration in the form of rights includes negative amounts for the write back in the accumulated expense previously recognised in the Group's income statement in respect of the Executive Performance Share Plan as a result of performance hurdles in relation to certain components of that Plan not being met or which are unlikely to be met. In particular, the 2006/07 grant was tested based on financial performance to 30 June 2009, the performance hurdles were not achieved and therefore no shares vested.

**Remuneration report (continued)**

**D. Summary of executive contracts**

The executive contracts set out remuneration details and other terms of employment for the executives. The contracts provide for base salary inclusive of superannuation (which is reviewed annually by the Human Resource and Remuneration Committee), performance-related cash bonuses, other benefits including health insurance, car allowances and tax advisory services, and participation, when eligible, in long-term incentive plans.

Key provisions of the executive contracts relating to remuneration are set out below. The contractual terms vary due to the timing of contracts, individual negotiations and different local market practices.

Term of contract	<ul style="list-style-type: none"> <li>• The majority of executives have on-going contracts.</li> <li>• The exception is the President of Quiet Flight who has a fixed term contract until 30 June 2012.</li> </ul>
Notice period required by executive	<ul style="list-style-type: none"> <li>• 18 months: GM Billabong USA</li> <li>• 12 months: Chief Executive Officer, GM Billabong Australasia, President Element Skateboards</li> <li>• 6 months: GM Billabong South Americas, Chief Financial Officer</li> <li>• 3 months: GM Billabong Europe</li> </ul>
Termination provisions (other than for gross misconduct)	<ul style="list-style-type: none"> <li>• Two times annual base salary: Chief Executive Officer</li> <li>• One times annual base salary plus the performance bonus for the year of termination: GM Billabong USA, President Element Skateboards</li> <li>• One times annual base salary plus the average performance bonus over the prior two years: GM Billabong Europe</li> <li>• One times annual base salary plus the performance bonus for the year of termination pro-rata to the date of termination: President of Quiet Flight</li> <li>• One times annual base salary: GM Billabong South Americas, GM Billabong Australasia, Chief Financial Officer</li> </ul>
Executive Performance Share Plan	<ul style="list-style-type: none"> <li>• If cessation of employment is within the first 12 months of the three year performance period then awards will lapse.</li> <li>• If the participant leaves after 12 months of the performance period but before the end of the performance period, vesting (if any) will depend upon the circumstances of them ceasing employment. Any vesting permitted will be a pro-rata amount based on performance and the proportion of the performance period they were employed.</li> </ul>
Executive Performance and Retention Plan	<ul style="list-style-type: none"> <li>• If the participant leaves before the end of the performance period, vesting (if any) will depend upon the circumstances of them ceasing employment. Any vesting will be determined by the Board having regard to performance and the proportion of the performance period they were employed.</li> </ul>

In November 2009, the Federal Government finalised the revised termination benefit cap legislation. Under this law, any new or substantially varied contracts would require termination benefits to be approved by shareholders where the benefit exceeds one times the individual's "base salary". The definition of base salary is broader than the base salary disclosed in the remuneration tables C.1 and C.2 and includes all elements regarded as non-performance based.

No new contracts have been entered into, nor have any new executives joined the Group since this new legislation was introduced. The legislation does not therefore apply to the current executives' contracts. The Committee will continue to review the approach to contractual entitlements based on the new legislation.

**Remuneration report (continued)**

**E. Non-executive Director fee policy and detail of fees paid during the year**

**Our approach to setting fees**

Non-Executive Directors receive a base fee plus a fee for the committees of which they are members. These fees are based on fees paid by similarly sized Australian companies and take into account the roles and responsibilities placed on Non-Executive Directors.

Non-Executive Directors do not receive equity based awards or retirement benefits (other than statutory superannuation payments).

**Approved fee pool**

Non-Executive Directors' fees are determined within a maximum aggregate Directors' fee pool limit. The pool currently stands at \$1,200,000 and was approved by members on 21 October 2005. Our current fees use the majority of this approved pool. This year, we are seeking approval to increase this pool to \$1,500,000. The new pool will provide us with flexibility over the next few years to make an addition to the Board and periodically revise fee levels based on market rates. Details of the increase in this pool are set out in the Notice of Meeting.

**Base and Committee fee policy**

The following table summarises the annual current base fees and the additional fees paid for membership or chairmanship of the relevant Board committees. The fees are exclusive of superannuation.

Chairman fee	\$325,000
Base fee for directors	\$130,000
Additional committee chair fees – Audit	\$25,000
Additional committee chair fees – HR & Remuneration	\$15,000

**Fees paid during 2009/10 (and comparatives)**

Table E.1

Name		Fees \$'000	Non- monetary benefits \$'000	Superannuation \$'000	Long service leave \$'000	Total Remuneration \$'000
E.T. Kunkel	<b>2010</b>	325	2	14	---	341
	2009	333	2	13	---	348
A.G. Froggatt	<b>2010</b>	130	2	10	---	142
	2009	130	2	12	---	144
M.A. Jackson	<b>2010</b>	145	2	13	---	160
	2009	145	2	13	---	160
F.A. McDonald	<b>2010</b>	155	2	14	---	171
	2009	155	2	14	---	171
G.S. Merchant	<b>2010</b>	130	2	12	---	144
	2009	130	2	12	---	144
C. Paull	<b>2010</b>	130	2	12	---	144
	2009	130	2	12	---	144
<b>Total</b>	<b>2010</b>	1,015	12	75	---	1,102
	2009	1,023	12	76	---	1,111

**Remuneration report (continued)**

**F. Additional statutory disclosures**

**Share-based compensation**

***Executive Performance Share Plan***

Details of equity instruments, comprising either performance shares or conditional rights (collectively "rights"), provided as remuneration to each executive are set out below. When vested, each instrument will entitle the holder to one ordinary share of the Company. Rights under the Plan will only vest if applicable performance hurdles are satisfied in the relevant performance period.

Name	Number of rights awarded during the year	Number of rights vested during the year
	2010	2010
<u>Executive Directors</u>		
D. O'Neill	88,170	---
P. Naude	76,262	---
<u>Other Key Management Personnel</u>		
F. Fogliato	43,284	---
C. Kypriotis	22,443	---
S. North	44,085	---
J. Schillereff	8,014	---
C. White	50,956	---
<u>Other Group Executives</u>		
E. Leasure	4,008	---

The assessed fair value at grant date of rights granted under the Billabong Executive Performance Share Plan during the year ended 30 June 2010 was \$10.51 per right (2009: \$12.91). 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 upon which the rights were granted.

Participants do not need to pay for awards on grant, vesting or exercise.

***Executive Performance and Retention Plan***

The Executive Performance and Retention Plan provides for grants of options over ordinary shares in the Company. Under the Plan, selected executives were granted options which only vest if certain performance conditions are met and the executives are still employed by the Group at the end of the vesting period. Once vested, the options remain exercisable for a period of two years.

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

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date	Performance achieved	% Vested
31 October 2008	31 October 2013	31 October 2015	\$11.08*	\$2.27	To be determined	n/a
24 November 2008	24 November 2013	24 November 2015	\$10.80	\$1.45	To be determined	n/a

\* Shareholder approval was obtained at the 2009 AGM 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.

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

**Remuneration report (continued)**

**F. Additional statutory disclosures (continued)**

**Details of remuneration: cash bonuses and options**

For each cash bonus paid, the percentage of the available bonus that was earned or paid, in the financial year, and the percentage that was forfeited because performance criteria were not met are set out below.

*Details of cash bonuses, performance shares and conditional rights*

Name	Cash bonus		Performance shares and conditional rights				
	Earned or Paid	Forfeited	Year granted	Vested	Forfeited	Financial years in which may vest	Maximum total value of grant yet to vest * \$'000
D. O'Neill	42%	58%	2010	---	---	30 June 2013	781
			2009	---	---	30 June 2012	926
			2008	---	---	30 June 2011	882
			2007	---	100%	30 June 2010	---
P. Naude	35%	65%	2010	---	---	30 June 2013	675
			2009	---	---	30 June 2012	801
			2008	---	---	30 June 2011	763
			2007	---	100%	30 June 2010	---
F. Fogliato	33%	67%	2010	---	---	30 June 2013	383
			2009	---	---	30 June 2012	454
			2008	---	---	30 June 2011	433
			2007	---	100%	30 June 2010	---
C. Kypriotis	75%	25%	2010	---	---	30 June 2013	199
			2009	---	---	30 June 2012	236
			2008	---	---	30 June 2011	225
			2007	---	100%	30 June 2010	---
E. Leasure	50%	50%	2010	---	---	30 June 2012	30
			2009	---	---	30 June 2011	7
			2008	---	---	30 June 2011	---
S. North	31%	69%	2010	---	---	30 June 2013	390
			2009	---	---	30 June 2012	463
			2008	---	---	30 June 2011	441
			2007	---	100%	30 June 2010	---
J. Schillereff	60%	40%	2010	---	---	30 June 2012	59
			2009	---	---	30 June 2011	15
			2008	---	---	30 June 2011	131
			2007	---	100%	30 June 2010	---
C. White	31%	69%	2010	---	---	30 June 2013	451
			2009	---	---	30 June 2012	535
			2008	---	---	30 June 2011	510
			2007	---	100%	30 June 2010	---

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

**Remuneration report (continued)**

**F. Additional statutory disclosures (continued)**

*Details of options*

Name	Options				
	Year granted	Vested %	Forfeited %	Financial years in which may vest	Maximum total value of grant yet to vest * \$'000
D. O'Neill	2009	---	---	30 June 2014	952
P. Naude	2009	---	---	30 June 2014	793
F. Fogliato	2009	---	---	30 June 2014	312
S. North	2009	---	---	30 June 2014	476
C. White	2009	---	---	30 June 2014	476

\* The maximum total value of grant yet to vest and yet to be expensed. The figures above are calculated as the amount of the grant date fair value of the options and assuming 100% of the award vests.

No options were granted, vested or forfeited during the year ended 30 June 2010.

**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	1,782,183	31 October 2008	\$11.08	31 October 2015
Executive Performance and Retention Plan	314,503	24 November 2008	\$10.80	24 November 2015
<b>Total</b>	<b>2,096,686</b>			

**Performance shares and conditional rights**

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

Type of right	Balance	Grant date	Performance/service determination date
Performance Shares	547,914	1 November 2007	30 June 2010
Conditional Rights	96,429	1 November 2007	30 June 2010
Performance Shares	310,802	1 September 2008	1 September 2010
Conditional Rights	70,398	1 September 2008	1 September 2010
Performance Shares	254,504	1 September 2008	30 June 2011
Conditional Rights	35,200	1 September 2008	30 June 2011
Performance Shares	396,326	1 December 2009	1 September 2011
Conditional Rights	104,971	1 December 2009	1 September 2011
Performance Shares	312,947	1 December 2009	30 June 2012
Conditional Rights	43,284	1 December 2009	30 June 2012
<b>Total</b>	<b>2,172,775</b>		

**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, 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 has considered the position and, in accordance with the advice received from the Audit Committee, is 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	
	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
PricewaterhouseCoopers Australian firm:		
International tax consulting together with separate tax advice on acquisitions	814	3,204
General accounting advice	67	---
Related practices of PricewaterhouseCoopers Australian firm	1,739	1,571
<b>Total remuneration for non-audit services</b>	<b>2,620</b>	<b>4,775</b>

Amounts paid or payable by the consolidated entity for audit and non-statutory audit services are disclosed in note 31 to the full financial statements.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 30.

**Rounding of amounts**

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & 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.

**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.



Ted Kunkel  
Chairman

Gold Coast, 20 August 2010

**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

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### Auditor's independence declaration

As lead auditor for the audit of Billabong International Limited for the year ended 30 June 2010, 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.



Robert Hubbard  
Partner  
PricewaterhouseCoopers

Brisbane, 20 August 2010

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## Corporate governance statement : :

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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 the highest 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 Recommendations during the financial year ended 30 June 2010. The Board of Directors considers that the Group's corporate governance practices comply with the ASX Recommendations.

### **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 are 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 senior management;
- approving and monitoring major capital expenditure, capital management, acquisitions, divestments and identified business drivers;
- monitoring areas of significant business risk and ensuring arrangements are in place to manage those risks;
- 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.

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 set, on an annual basis, financial and non-financial performance hurdles for the CEO and senior executives and performance is assessed against these performance hurdles. A performance assessment for the CEO and senior executives last took place in August 2010.

### **PRINCIPLE 2: Structure the Board to add value**

During the financial year the Board comprised six Non-Executive Directors (including the Chairman) and two Executive Directors (CEO and General Manager North America). 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.

#### *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 Chairman 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 Director's independence is carried out annually or at any other time where the circumstances of a Director change such as to warrant reconsideration.

When determining the independence of Non-Executive Directors 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 (3) years between ceasing such employment and serving on the Board;
- has within the last three (3) years been a principal of a material professional advisor or a material consultant to the Company, or an employee materially associated with the service provided;

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## Corporate governance statement : :

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- 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.

Mr 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 guidelines. Mr Merchant is a founder of the Billabong 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.

All other Non-Executive Directors do not have any business interest or other relationship that could materially interfere with the exercise of their independent judgement and their ability to act in the best interests of the Company. Accordingly a majority of the Board are independent Directors.

The Board assesses independence each year. To enable this process, the Directors must provide all information that may be relevant to the assessment.

The Chairman of the Company is an independent Non-Executive Director.

The roles of Chairman and CEO are exercised by separate individuals.

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

### **Nominations Committee Committee Members**

**Ted Kunkel (Chairman)**  
**Tony Froggatt**  
**Margaret Jackson**  
**Allan McDonald**  
**Gordon Merchant**  
**Colette Paul**

The Nominations Committee consists only of Non-Executive Directors and a majority of the members of the Committee are independent. The Chairman of the Committee is a Non-Executive Director.

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 currently represented on the Board;
- regularly review and make recommendations to the Board regarding the structure, size and composition of the Board and keep under review the leadership needs of the Company, both executive and non-executive;
- identify suitable candidates to fill Board vacancies as and when they arise and nominating candidates for the approval of the Board;
- ensure that, on appointment, all Directors receive a formal letter of appointment, setting out the time commitment and responsibility envisaged in the appointment including any responsibilities with respect to Board Committees;
- oversee appropriate Board succession planning; and
- establish a process for the review of the performance of individual Directors and the Board as a whole.

When a new Director is to be appointed, the Committee reviews the range of skills, experience and expertise on the Board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience. Where necessary, advice is sought from independent search consultants. The full Board then appoints the most suitable candidate who must submit themselves to shareholders for election at the first Annual General Meeting following their appointment.

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, 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 share 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.

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## Corporate governance statement : :

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New Directors are advised of the time commitment required of them in order to appropriately discharge their responsibilities as a Director of the Company. Directors are required to confirm that they have sufficient time to meet this requirement. 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.

### *Board Performance*

The Board undertakes an annual self assessment of the performance of the Board as a whole, its Committees, the Chairman, individual Directors and governance processes that support Board work. Performance of individual Directors is assessed against a range of dimensions including the ability of the Director to consistently create shareholder value, to contribute to the development of strategies and risk identification, to provide clarity of direction to senior management, to listen to the views of fellow Directors and members of management and key third party stakeholders and to provide the time commitment to ensure the discharge of duties and obligations to the Company. The Chairman meets privately with each Director to discuss individual and collective performance of Directors.

### **PRINCIPLE 3: Promote ethical and responsible decision-making**

#### *Group Code of Conduct*

The Company has a Group Code of Conduct, which is available in five 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. Appropriate training programs on the Code are undertaken in each of the regions in which the Company operates. A copy of the main provisions of the Group Code of Conduct is available on the Company's corporate website.

#### *Trading in Company Securities by Directors, senior executives and employees*

The Company has a detailed securities trading policy which regulates dealings by Directors, senior managers and employees in shares, options and other securities issued in the Company.

A summary of the policy is as follows:

- dealings by Directors, senior managers, and nominated employees are confined to three trading windows which begin after two clear trading days have elapsed from the date of the half and full year profit announcements and date of the Annual General Meeting and continues for a period of thirty calendar days;
- Directors have entered into agreements to notify the Company within three days of any dealings in the Company securities;
- where a trade by a Director or associated Company is in excess of one million shares or represents more than 10% of that Director's then current securities holding, the Director has the responsibility to notify the Chairman at least 48 hours prior to engaging in any transaction;
- guidance is given to Directors that transactions in excess of one million shares should not be sold through normal day trading in order to minimise risk to the market price; and
- Executives are prohibited from hedging or otherwise reducing or eliminating the risk associated with long-term incentives such as unvested performance shares and options offered by the Company to the Executive.

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

#### *Whistleblower Policy*

A copy of the Whistleblower Policy is available on the Company's corporate website. The policy applies to all Company employees, contractors and consultants and is designed to protect individuals who, in good faith, report conduct which they reasonably believe to be corrupt, illegal or unethical on a confidential basis, without fear of reprisal, dismissal or discriminatory treatment.

**PRINCIPLE 4: Safeguard integrity in financial reporting****Audit Committee  
Committee Members**

**Allan McDonald (Chairman)**  
**Tony Froggatt**  
**Margaret Jackson**  
**Ted Kunkel**  
**Gordon Merchant**  
**Colette Paul**

The Audit Committee consists only of Non-Executive Directors and a majority of the members of the Committee are independent. The Chairman of the Committee is a 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.

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 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 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 they have maintained their 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 introduced for the year ended 30 June 2007.

The performance of the external auditor is reviewed annually. An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the Directors' Report and in the notes to the financial statements. The external auditor is requested 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 Auditors is available on the Company's corporate website.

### **PRINCIPLE 5: Make timely and balanced disclosure**

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). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in 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 it is disclosed to the ASX. 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.

### **PRINCIPLE 6: Shareholder communication**

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 Half-Yearly 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 shareholders where nominated;
- 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 is posted to the Company's corporate website.

The Billabong website maintains, at a minimum, information about the last three years' press releases or announcements.

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 system of internal controls and for regularly reviewing its effectiveness.

The Company has implemented a risk management system based on AS/NZS 4360:2004; *Risk Management* standard and the ASX Corporate Governance Principles and Recommendations. The framework is based around the following risk activities:

- Risk Identification: Identify all significant foreseeable risks associated with business activities in a timely and consistent manner;
- Risk Evaluation: Evaluate risks using an 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 reviews the Risk Management Policy and framework on a regular basis and satisfies 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 in accordance with the risk management framework. 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.

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## Corporate governance statement : :

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Additionally a formal risk assessment process is part of each major capital acquisition with a post acquisition review undertaken after eighteen to twenty-four months of major business acquisitions, major capital expenditures or significant business initiatives.

### *Certification of risk management controls*

In conjunction with the certification of financial reports under Principle 4, the CEO and CFO state in writing to the Board each reporting period that:

- the statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

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

### **PRINCIPLE 8: Remunerate fairly and responsibly**

#### **Human Resource and Remuneration Committee Committee Members**

**Margaret Jackson (Chairman)**  
**Tony Froggatt**  
**Ted Kunkel**  
**Allan McDonald**  
**Gordon Merchant**  
**Colette Paull**

The Human Resource and Remuneration Committee consists only of Non-Executive Directors and a majority of the members of the Committee are independent. The Chairman of the Committee is a 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.

The main functions of the Committee are to assist the Board in establishing 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; and
- (c) comply with all relevant legislation and regulations including the ASX Listing Rules and *Corporations Act 2001*.

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 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; and
- ensure that the Board is aware of all relevant legal requirements regarding disclosure of remuneration.

The Committee reviews and sets key performance indicators (KPI's) relating to financial and non-financial targets for senior management at the commencement of each financial year. These KPI's are evaluated at the end of each reporting period and impact on the discretionary element of the Executive's remuneration. Committee members receive briefings from external remuneration consultants on recent developments on remuneration and related matters. The Human Resource and Remuneration Committee Charter is available on the Company's corporate website.

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## Corporate governance statement : :

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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 Directors and key Executives of the Company are set out in the 'Remuneration Report' section of the Directors' Report. The current maximum aggregate remuneration pool for Non-Executive Directors is currently \$1,200,000 per annum which was approved by shareholders on 21 October 2005. Shareholders will be asked to approve an increase in Directors' Fees from \$1,200,000 to \$1,500,000.

There are no Directors' retirement benefits other than statutory superannuation.



# Billabong International Limited

ABN 17 084 923 946

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## :: FINANCIAL REPORT 30 JUNE 2010

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

The financial report was authorised for issue by the Directors on 20 August 2010. 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: [www.billabongbiz.com](http://www.billabongbiz.com)

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**Income statement**For the year ended 30 June 2010 : :

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		Consolidated	
	Notes	2010 \$'000	2009 \$'000
<b>Revenue from continuing operations</b>	5	1,487,527	1,674,434
Cost of goods sold	7	(675,533)	(780,436)
Other income	6	7,061	1,491
Selling, general and administrative expenses	7	(469,788)	(525,351)
Other expenses	7	(121,072)	(125,530)
Finance costs	7	(25,164)	(38,561)
<b>Profit before income tax</b>		203,031	206,047
Income tax expense	8	(57,865)	(53,208)
<b>Profit for the year</b>		145,166	152,839
Loss attributable to non-controlling interests		822	---
<b>Profit for the year attributable to the members of Billabong International Limited</b>		145,988	152,839
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company</b>		Cents	Cents
Basic earnings per share	41	58.3	69.2
Diluted earnings per share	41	57.8	68.7

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

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## Statement of comprehensive income

For the year ended 30 June 2010 : :

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	Consolidated	
Notes	2010 \$'000	2009 \$'000
<b>Profit for the year</b>	145,166	152,839
<b>Other comprehensive income</b>		
Changes in the fair value of cash flow hedges, net of tax	27(b) 11,304	(10,253)
Exchange differences on translation of foreign operations	27(b) (14,486)	1,923
Net investment hedge, net of tax	27(b) (16,981)	17,291
<b>Other comprehensive (expense)/income for the year, net of tax</b>	(20,163)	8,961
<b>Total comprehensive income for the year</b>	125,003	161,800
Loss attributable to non-controlling interests	822	---
<b>Total comprehensive income for the year attributable to members of Billabong International Limited</b>	125,825	161,800

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

**Balance sheet**

As at 30 June 2010 : :

		Consolidated	
	Notes	2010 \$'000	2009 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	208,742	332,937
Trade and other receivables	10	398,378	405,155
Inventories	11	240,400	253,670
Current tax receivables		3,584	10,456
Other	12	27,581	18,563
<b>Total current assets</b>		<b>878,685</b>	<b>1,020,781</b>
<b>Non-current assets</b>			
Receivables	13	17,172	11,566
Property, plant and equipment	14	170,477	161,816
Intangible assets	15	1,118,308	999,491
Deferred tax assets	16	22,656	21,735
Other	17	3,021	5,123
<b>Total non-current assets</b>		<b>1,331,634</b>	<b>1,199,731</b>
<b>Total assets</b>		<b>2,210,319</b>	<b>2,220,512</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	18	315,545	277,947
Borrowings	19	20,525	10,031
Current tax liabilities	20	8,820	7,690
Provisions	21	9,889	13,483
<b>Total current liabilities</b>		<b>354,779</b>	<b>309,151</b>
<b>Non-current liabilities</b>			
Borrowings	22	404,933	547,872
Deferred tax liabilities	23	54,815	56,497
Provisions and other payables	24	22,271	21,330
Deferred payment	25	155,942	108,726
<b>Total non-current liabilities</b>		<b>637,961</b>	<b>734,425</b>
<b>Total liabilities</b>		<b>992,740</b>	<b>1,043,576</b>
<b>Net assets</b>		<b>1,217,579</b>	<b>1,176,936</b>
<b>EQUITY</b>			
Contributed equity	26	671,761	659,012
Treasury shares	27(a)	(30,767)	(27,295)
Option reserve	27(b)	7,844	2,519
Other reserves	27(b)	(62,369)	(32,480)
Retained profits	27(c)	630,290	575,180
Capital and reserves attributable to members of Billabong International Limited		1,216,759	1,176,936
Non-controlling interests		820	---
<b>Total equity</b>		<b>1,217,579</b>	<b>1,176,936</b>

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

## Statement of changes in equity

For the year ended 30 June 2010 : :

Consolidated	Notes	Attributable to members of Billabong International Limited				Non-con- trolling interests \$'000	Total equity \$'000
		Contri- buted equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000		
<b>Balance at 1 July 2008</b>		316,317	(59,342)	538,128	795,103	---	795,103
<b>Total comprehensive income for the year</b>		---	8,961	152,839	161,800	---	161,800
<b>Transactions with equity holders in their capacity as equity holders:</b>							
Employee share options exercised	26(b)	39	---	---	39	---	39
Rights issue, net of transaction costs	26(b)	284,799	---	---	284,799	---	284,799
Dividend reinvestment plan issues	26(b)	57,857	---	---	57,857	---	57,857
Dividends paid	28	---	---	(115,787)	(115,787)	---	(115,787)
Treasury shares purchased by employee share plan trusts	27(a)	---	(7,194)	---	(7,194)	---	(7,194)
Option reserve in respect of employee share plan	27(b)	---	319	---	319	---	319
		342,695	(6,875)	(115,787)	220,033	---	220,033
<b>Balance at 30 June 2009</b>		659,012	(57,256)	575,180	1,176,936	---	1,176,936
<b>Total comprehensive income for the year</b>		---	(20,163)	145,988	125,825	(822)	125,003
<b>Transactions with equity holders in their capacity as equity holders:</b>							
Dividend reinvestment plan issues	26(b)	12,749	---	---	12,749	---	12,749
Dividends paid	28	---	---	(90,878)	(90,878)	---	(90,878)
Treasury shares purchased by employee share plan trusts	27(a)	---	(3,472)	---	(3,472)	---	(3,472)
Option reserve in respect of employee share plan	27(a)	---	5,325	---	5,325	---	5,325
Redemption option for non-controlling derivative	27(b)	---	(9,726)	---	(9,726)	---	(9,726)
Non-controlling interests on acquisition of subsidiary	35	---	---	---	---	1,642	1,642
		12,749	(7,873)	(90,878)	(86,002)	1,642	(84,360)
<b>Balance at 30 June 2010</b>		671,761	(85,292)	630,290	1,216,759	820	1,217,579

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

## Cash flow statement

For the year ended 30 June 2010 : :

		Consolidated	
Notes	2010 \$'000	2009 \$'000	
<b>Cash flows from operating activities</b>			
	1,551,174	1,706,459	
	(1,299,033)	(1,447,870)	
	252,141	258,589	
Interest received	3,319	2,815	
Other revenue	3,726	2,360	
Finance costs	(22,774)	(37,205)	
Income taxes paid	(49,165)	(50,874)	
<b>Net cash inflow from operating activities</b>	<b>187,247</b>	<b>175,685</b>	39
<b>Cash flows from investing activities</b>			
Payments for purchase of subsidiaries and businesses, net of cash acquired	(49,591)	(143,760)	35
Payments for property, plant and equipment	(53,064)	(65,355)	
Payments for intangible assets	(3,393)	(6,225)	
Proceeds from sale of property, plant and equipment	284	97	
<b>Net cash outflow from investing activities</b>	<b>(105,764)</b>	<b>(215,243)</b>	
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares and other equity securities	---	325,154	
Share issue and transaction costs	---	(8,219)	
Payments for treasury shares held by employee share plan trusts	(3,472)	(7,194)	
Proceeds from borrowings	698,832	714,688	
Repayment of borrowings	(809,333)	(682,360)	
Dividends paid	(78,129)	(92,196)	28
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(192,102)</b>	<b>249,873</b>	
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(110,619)</b>	<b>210,315</b>	
Cash and cash equivalents at the beginning of the year	332,937	125,852	
Effects of exchange rate changes on cash and cash equivalents	(13,576)	(3,230)	
<b>Cash and cash equivalents at the end of the year</b>	<b>208,742</b>	<b>332,937</b>	9
Financing arrangements	22		
Non-cash investing and financing activities	40		

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

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## Note 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report is 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, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS).

#### *Compliance with IFRS*

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

#### *Early adoption of standards*

The Group has elected not to early apply accounting standards that are not applicable to the accounting period ended 30 June 2010.

#### *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 and certain classes of property, plant and equipment.

#### *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.

#### *Financial statement presentation*

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

### (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 2010 and the results of all subsidiaries for the year then ended.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another 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)).

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.

**Note 1. Summary of significant accounting policies (continued)**

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 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) 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.

**(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").

*Change in accounting policy*

The Group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in no change to the number of reportable segments presented, as the information used for internal reporting purposes is consistent with the prior years' reportable segment information. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. There has been no impact on the measurement of the Company's assets and liabilities.

**(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 Company's functional and presentation currency.

**Note 1. Summary of significant accounting policies (continued)**

(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 or borrowings repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

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 collectibility 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.

(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 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.

**Note 1. Summary of significant accounting policies (continued)**

**(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 Company'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.

*Investment allowances*

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. Any unclaimed tax credits may be carried forward as deferred tax assets.

**(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.

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 33). 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.

## Note 1. Summary of significant accounting policies (continued)

### (h) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, 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, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share 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 consideration – acquisitions pre 1 July 2009*

When deferred 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 Group's risk free rate.

#### *Deferred consideration – acquisitions post 1 July 2009*

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. The discount rate used is the Group's risk free rate. Amounts classified as a payable are subsequently remeasured to fair value with changes in fair value recognised in the income statement.

#### *Change in accounting policy*

A revised AASB 3 *Business Combinations* became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as a payable are subsequently remeasured through the income statement. Under the Group's previous policy, contingent payments were only recognised when payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition. The Group continues to account for business combinations which occurred pre 1 July 2009 under the previous AASB 3 *Business Combinations* standard.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. The Group has chosen to recognise the non-controlling interest at the proportionate share of the net identifiable assets of Surfstitch Pty Ltd for this acquisition.

If the Group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

## Note 1. Summary of significant accounting policies (continued)

### (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 costs to sell 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.

### (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.

Collectibility 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 under a factoring arrangement and amounts due 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.

## Note 1. Summary of significant accounting policies (continued)

### (m) 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 10) and receivables (note 13) in the balance sheet.

#### *(ii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and an ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

#### **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. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. 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 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.

## Note 1. Summary of significant accounting policies (continued)

### (n) 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 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 29. Movements in the hedging reserve in shareholders' equity are shown in note 27(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; 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). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. However, 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 transferred 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 transferred to the income statement.

#### (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.

#### (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.

## Note 1. Summary of significant accounting policies (continued)

### (o) 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 & 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 carrying amount. These are included in the income statement.

### (p) Intangible assets

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. 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 written off against operating profit in the year in which it is 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 programmes are recognised as an expense as incurred.

### (q) 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.

## Note 1. Summary of significant accounting policies (continued)

### (r) 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, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments 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.

### (s) 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.

### (t) Provisions

Provisions for restoration, restructuring costs and legal claims 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.

### (u) 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 annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as other payables.

#### (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 national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

**Note 1. Summary of significant accounting policies (continued)**

*(iii) Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date 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 contractually obliged or where there is a past practice that has created a constructive obligation.

**(v) 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.

**(w) 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.

**(x) 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.

**(y) Employee and executive share plans**

Equity-based compensation benefits are provided to employees via the Billabong Executive Performance Share Plan and the Executive Performance and Retention Plan.

*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 42.

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.

*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 42.

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.

**(z) 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.

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.

**(aa) Parent entity financial information**

The financial information for the parent entity, Billabong International Limited, disclosed in note 43 has been prepared on the same basis as the consolidated financial report, except as set out below.

## Note 1. Summary of significant accounting policies (continued)

### *Investments in subsidiaries*

Investments in subsidiaries are accounted for at cost in the financial report of Billabong International Limited. Dividends received from subsidiaries are recognised in the parent entity's income statement rather than being deducted from the carrying amount of these investments.

### *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.

## **(bb) Goods and Services Tax (GST)**

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

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

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

## **(cc) 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.

**Note 1. Summary of significant accounting policies (continued)**

**(dd) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

- (i) *AASB 9 Financial Instruments and AASB 2009-11 Amendments arising from AASB 9 (effective from 1 January 2013)*  
AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact. The Group has not yet decided when to adopt AASB 9.
- (ii) *AASB 2009-5 Amendments from the annual improvements project (effective from 1 January 2010)*  
In 2009 the AASB issued a number of amendments to existing International Financial Reporting Standards. The amendments will generally apply to financial reporting periods commencing on or after 1 January 2010. The Group will apply the revised standards from the relevant application dates.
- (iii) *AASB 2010-3 Amendments to Australian Accounting Standards arising from the annual improvements project and AASB 2010-4 Further amendments to Australian Accounting Standards arising from the annual improvements project (effective from 1 July 2010 and 1 January 2011)*  
In June 2010 the AASB issued a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The amendments will generally apply to financial reporting periods commencing on or after 1 July 2010. The Group will apply the revised standards from the relevant application dates.

## Note 2. Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency 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 and interest rate swaps 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 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 29, 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 significant foreign currency (figures in Australian Dollars), are set out below:

	Notes	Consolidated	
		2010 \$'000	2009 \$'000
<b>Australian Dollars</b>			
Cash and cash equivalents	9	25,887	157,559
Trade and other receivables	10, 13	49,530	44,114
Borrowings	19, 22	(11,915)	(39,095)
Trade and other payables	18	(21,590)	(27,080)
		<u>41,912</u>	<u>135,498</u>
<b>United States Dollars</b>			
Cash and cash equivalents	9	132,709	129,700
Trade and other receivables	10, 13	147,013	157,914
Borrowings	19, 22	(379,505)	(388,619)
Trade and other payables	18	(210,807)	(163,680)
		<u>(310,590)</u>	<u>(264,685)</u>
<b>European Euros</b>			
Cash and cash equivalents	9	11,827	12,796
Trade and other receivables	10, 13	97,357	109,626
Borrowings	19, 22	(13,941)	(100,947)
Trade and other payables	18	(49,921)	(46,916)
		<u>45,322</u>	<u>(25,441)</u>
<b>Other</b>			
Cash and cash equivalents	9	38,319	32,882
Trade and other receivables	10, 13	121,650	105,067
Borrowings	19, 22	(20,097)	(29,242)
Trade and other payables	18	(33,227)	(40,271)
		<u>106,645</u>	<u>68,436</u>

## **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 2010 relates to intragroup monetary assets or liabilities, which whilst these intragroup assets or liabilities 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 2010 had the Australian Dollar as at 30 June 2010 weakened / strengthened by 10% against the United States Dollar with all other variables held constant, post-tax profit for the year would have been \$3.9 million higher / \$3.2 million lower (2009: \$3.0 million higher / \$2.4 million lower), mainly as a result of intragroup monetary assets or liabilities as at 30 June 2010. Profit is more sensitive to movements in the Australian Dollar / United States Dollar in 2010 than 2009 because of increased amounts of intragroup monetary assets or liabilities and increased amounts of United States Dollar assets or liabilities in non-United States Dollar functional currency entities as at 30 June 2010 compared with as at 30 June 2009. 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 \$10.4 million higher / \$10.0 million lower (2009: \$6.5 million higher / \$2.5 million lower). The Group's exposure to other foreign exchange movements as at 30 June 2010 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. In certain circumstances the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

As at the reporting date, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
Bank loans, syndicated facility, drawdown facility and cash advance facilities	422,759	553,065
Interest rate swaps (notional principal amount)	(188,568)	(198,044)
Net exposure to interest rate risk	<u>234,191</u>	<u>355,021</u>

An analysis by maturities is provided in (c) below and a summary of the terms and conditions is in note 22.

#### *Group sensitivity analysis*

At 30 June 2010 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 \$1.5 million lower / higher (2009: \$1.5 million lower / higher). Equity would have been \$1.9 million lower / higher (2009: \$2.6 million lower / higher) mainly as a result of an increase / decrease in the fair value of the cash flow hedges as at 30 June 2010.

### **(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 with the result that the Group's exposure to bad debts is not significant. 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.

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 10).

### (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 \$2.4 million (2009: \$128.1 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 22(d) for information in regards to the Group's financing arrangements. Refer to note 26(h) 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 9) on the basis of expected cash flows. This is generally carried out at a local level in the operating companies of the Group in accordance with practice and limits set by the Group. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the Group's liquidity management policy involves monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

The table below analyses the Group's financial liabilities, 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)**

Consolidated - 2010	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 Fixed rate debt	308,845	---	---	---	---	308,845	308,845
	722	778	1,300	68	---	2,868	2,699
Variable rate debt	25,609	7,517	238,047	176,980	---	448,153	422,759
Net settled derivatives (interest rate swaps)	1,694	1,623	---	---	---	3,317	4,847
Net variable rate liabilities	27,303	9,140	238,047	176,980	---	451,470	427,606
Less: Cash (i)	(208,742)	---	---	---	---	(208,742)	(208,742)
Net variable rate liquidity position	(181,439)	9,140	238,047	176,980	---	242,728	218,864
Gross settled derivatives (forward exchange contracts)							
- (inflow)	(105,687)	(26,452)	---	---	---	(132,139)	(3,543)
- outflow	101,686	26,936	---	---	---	128,622	---
	(4,001)	484	---	---	---	(3,517)	(3,543)

**Syndicated facility**

On 17 July 2008 a new AU\$600 million unsecured its Syndicated Revolving Multi-Currency Facility was entered into by the Group to replace the previous AU\$515 million secured facilities and to provide additional liquidity to the Group (refer to note 22 for the Group's secured facilities as at 30 June 2010). The new facility was structured on an unsecured basis with two and three year tranches of AU\$300 million each. Consistent with the Group's capital risk management strategy (note 26(h)), on 16 October 2008 the Group converted this facility into a US\$533.5 million facility to minimise the volatility in the Group's financing facilities due to movements in the AUD/USD exchange rate. The two year tranche under this facility, which was due for roll-over on or prior to 1 July 2010, was extended to 1 July 2012 on 11 August 2009 and the facility balance relating to this tranche was reduced from US\$266.75 million to US\$216.75 million.

On 4 August 2010, the Group renegotiated this Syndicated Revolving Multi-Currency Facility which included:

- an increase in the total facility balance from US\$483.5 million to US\$790.0 million to be split equally between the two tranches under the facility;
- an extension to 1 July 2013 of the three year tranche of the facility, to remain a three year facility; and
- an extension to 1 July 2014 of the three year tranche of the facility, to become a four year facility.

**Drawdown facility**

On 21 July 2008 a new AU\$100 million unsecured multi-currency drawdown facility was entered into by the Group, replacing the previous secured facility for the same amount (refer to note 22 for the Group's secured facilities as at 30 June 2010). On 22 December 2008 the Group converted this facility into a US\$100 million facility to further minimise the volatility in the Group's financing facilities due to movements in the AUD/USD exchange rate.

On 7 September 2009 the Group completed the extension of its US\$100 million unsecured multi-currency drawdown facility to 1 July 2012 which was due for rollover on or prior to 17 July 2010.

## Note 2. Financial risk management (continued)

### (c) Liquidity risk (continued)

Consolidated - 2009	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 Fixed rate debt	268,544 1,030	---	---	---	---	268,544 5,283	268,544 4,838
Variable rate debt	16,425	8,099	257,447	298,207	---	580,178	553,065
Net settled derivatives (interest rate swaps)	3,329	3,311	5,022	---	---	11,662	9,523
Net variable rate liabilities	19,754	11,410	262,469	298,207	---	591,840	562,588
Less: Cash (i)	(332,937)	---	---	---	---	(332,937)	(332,937)
Net variable rate liquidity position	(313,183)	11,410	262,469	298,207	---	258,903	229,651
Gross settled derivatives (forward exchange contracts)							
- (inflow)	(216,980)	(24,003)	---	---	---	(240,983)	---
- outflow	225,529	24,244	---	---	---	249,773	8,987
	8,549	241	---	---	---	8,790	8,987

#### Entitlement offers (prior year only)

In May 2009, the Company invited institutional and retail shareholders to participate in accelerated non-renounceable pro-rata entitlement offers to subscribe for 2 new ordinary shares for every 11 existing ordinary shares at an issue price of \$7.50 per share (refer to note 26 for further information). Each offer was fully underwritten by Goldman Sachs JBWere. Details of these offers are as follows:

- The institutional entitlement offer was made on 18 May 2009 with shares issued on and ranking for dividends after 29 May 2009. As a result, 30.6 million new shares were issued, resulting in cash proceeds of \$229.2 million.
- The retail entitlement offer was made on 25 May 2009 with shares issued on and ranking for dividends after 19 June 2009. As a result, 8.2 million new shares were issued, resulting in cash proceeds of \$61.6 million.

In total the entitlement offer raised cash proceeds of \$290.8 million, before transaction costs.

#### (i) Cash

Cash is considered in managing the Group's exposure to liquidity and interest rate risks. As at 30 June 2010 the Group held a significant cash balance of \$208.7 million (2009: \$332.9 million). Of this amount \$63.8 million (2009: \$142.0 million) was used for debt repayment or debt offset as follows:

#### Cash allocated for debt offset

In order to optimise the cost of funds, the Group has a cash pooling arrangement wherein a portion of the Group's cash is 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 2010, the amount of cash included in the notional pooling was \$63.8 million (30 June 2009: \$17.4 million).

#### Cash allocated for debt repayment (prior year only)

A comprehensive analysis was performed by management to determine the most efficient use of the net proceeds of the entitlement offers detailed above. The analysis considered the order of repayment of current drawn debt, expected interest rates and commitment and break fees associated with early repayment of debt segments. Based on the results of this analysis, at 30 June 2009, \$124.6 million of these net proceeds were held in an 'at call' deposit account earning market interest rates pending repayment of specific debt segments in July and August 2009 using these net proceeds.

## Note 2. Financial risk management (continued)

### (d) Fair value measurements

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

As of 1 July 2009, the Group has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),
- (b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- (c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

Group – at 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Forward exchange contracts – cash flow hedges	---	5,396	---	5,396
<b>Total assets</b>	---	5,396	---	5,396
<b>Liabilities</b>				
Forward exchange contracts – cash flow hedges	---	1,853	---	1,853
Interest rate swap contracts – cash flow hedges	---	4,847	---	4,847
<b>Total liabilities</b>	---	6,700	---	6,700

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1. The Group does not hold any of these financial instruments at 30 June 2010.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise derivative financial instruments. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3. The Group does not hold any level 3 financial instruments at 30 June 2010.

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 interest rates that are available to the Group for similar financial instruments. Refer to note 13(b) and 22(f) for further information.

### Note 3. Critical accounting estimates and judgements

Estimates and judgements are continually 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 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") 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 15.

If the VIU of a CGU is lower than its carrying amount, then the CGU's fair value less costs to sell ("FVLCTS") is determined as AASB 136 requires the recoverable amount of a CGU to be the higher of VIU and FVLCTS. In applying the FVLCTS 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. Assumptions used in impairment testing are detailed in note 15.

#### *Deferred contingent consideration – acquisitions pre 1 July 2009*

In relation to certain acquisitions that have been made by the Group pre 1 July 2009, deferred contingent consideration may be payable in cash if certain specific conditions are achieved. When the deferred contingent consideration payable becomes probable and the amount can be reliably measured, the Group brings it to account (refer note 25) and the amount of the contingent liability is disclosed in note 32. 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 32). The discount rate used is the Group's risk free rate. The calculation of the payable for each acquisition requires the use of estimates and judgements which are reviewed at each reporting period.

#### *Deferred contingent consideration – acquisitions post 1 July 2009*

In relation to certain acquisitions that have been made by the Group post 1 July 2009, deferred 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 32). The discount rate used is the Group's risk free rate. Amounts classified as a payable are subsequently remeasured to fair value with changes in fair value recognised in the income statement. The calculation of the payable for each acquisition requires the use of estimates and judgements which are reviewed at each reporting period.

## 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, Malaysia, Indonesia, Thailand and South Korea.

#### *Americas*

This segment includes the United States of America, Canada, Brazil, Peru and Chile.

#### *Europe*

This segment includes Austria, Belgium, 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.

Segment Earnings Before Interest, Taxes, Depreciation and Amortisation ("EBITDA") excludes inter-company royalties and sourcing fees and includes an allocation of global overhead costs (which include corporate overhead, international advertising and promotion costs, central sourcing costs and foreign exchange movements).

The geographical segment assets exclude deferred tax assets and derivative assets.

### (b) Segment information provided to the CEO

The segment information provided to the CEO for the reportable segments for the year ended 30 June 2010 is as follows:

2010	Australasia \$'000	Americas \$'000	Europe \$'000	Rest of the World \$'000	Total \$'000
Sales to external customers	425,663	712,633	344,023	---	1,482,319
Third party royalties	---	---	---	2,009	2,009
Total segment revenue	425,663	712,633	344,023	2,009	1,484,328
EBITDA	89,175	92,311	69,847	2,009	253,342
Less: depreciation and amortisation					(35,572)
Less: net interest expense					(14,739)
Profit before income tax					203,031
Segment assets	1,798,343	1,056,651	260,199	---	3,115,193
Elimination					(932,926)
Unallocated assets:					
Deferred tax					22,656
Derivative assets					5,396
Total assets					2,210,319
Acquisitions of property, plant and equipment, intangibles and other non- current segment assets	34,956	30,788	16,268	---	82,012

**Note 4. Segment information (continued)**

2009	Australasia \$'000	Americas \$'000	Europe \$'000	Rest of the World \$'000	Total \$'000
Sales to external customers	444,260	836,836	387,966	---	1,669,062
Third party royalties	---	---	---	2,189	2,189
Total segment revenue	444,260	836,836	387,966	2,189	1,671,251
EBITDA	100,378	99,911	82,352	2,189	284,830
Less: depreciation and amortisation					(38,134)
Less: impairment charge*					(9,476)
Less: net interest expense					(31,173)
Profit before income tax					206,047
Segment assets	1,701,468	945,281	273,703	---	2,920,452
Elimination					(722,091)
Unallocated assets:					
Deferred tax					21,735
Derivative assets					416
Total assets					2,220,512
Acquisitions of property, plant and equipment, intangibles and other non- current segment assets	103,498	127,616	21,026	---	252,140

\* As a result of the impairment review of retail store assets, certain assets have been written down to their recoverable amount, being their value-in-use. Value-in-use has been assessed by reference to management's best estimate of the risk adjusted future earnings performance of each store over the remaining life of the lease. This resulted in a pre-tax impairment charge in respect of retail stores in various countries, but predominately in the United Kingdom and the United States, which amounted to \$9.5 million. This impairment charge has been included within the other expenses line item on the income statement.

**(c) 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:

	Consolidated	
	2010 \$'000	2009 \$'000
Total segment revenue	1,484,328	1,671,251
Other revenue, including interest revenue	3,199	3,183
Total revenue from continuing operations	1,487,527	1,674,434

Segment revenue in relation to Australia represents 58% of Australasia (2009: 56%), segment revenue in relation to the United States of America represents 78% of Americas (2009: 80%) and segment revenue in relation to France represents 83% of Europe (2009: 90%).

No single customer represents more than 10% of the Group's total turnover for the years ended 30 June 2010 and 30 June 2009.

*(ii) EBITDA*

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

**Note 4. Segment information (continued)**

*(iii) 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 and derivative assets, in relation to Australia represents 88% of Australasia (2009: 89%), segment assets, excluding deferred tax assets and derivative assets, in relation to the United States represents 87% of Americas (2009: 88%) and segment assets, excluding deferred tax assets and derivative assets, in relation to France represents 89% of Europe (2009: 92%).

**Note 5. Revenue**

	Consolidated	
	2010 \$'000	2009 \$'000
<b>From continuing operations</b>		
<i>Sales revenue</i>		
Sale of goods	1,482,319	1,669,062
Royalties	2,009	2,189
	1,484,328	1,671,251
<i>Other revenue</i>		
Interest	2,488	2,039
Other	711	1,144
	3,199	3,183
 Total revenue from continuing operations	1,487,527	1,674,434

**Note 6. Other income**

	Consolidated	
	2010 \$'000	2009 \$'000
Foreign exchange gains	6,183	---
Other	878	1,491
	7,061	1,491

**Note 7. Expenses**

	Consolidated	
	2010 \$'000	2009 \$'000
<b>Profit before income tax includes the following specific expenses:</b>		
<i>Expenses</i>		
Cost of goods sold	675,533	780,436
Selling, general and administrative expenses	469,788	525,351
<i>Employee benefits expense (included in the amounts above)</i>	226,427	248,539
<i>Depreciation</i>		
Buildings	1,219	577
Plant and equipment	32,874	35,928
Plant and equipment under finance lease	830	1,114
Total depreciation	<u>34,923</u>	<u>37,619</u>
<i>Amortisation of finite life intangible assets</i>	649	515
<i>Interest and finance charges</i>		
Interest expense	17,227	33,212
Other borrowing costs	5,130	2,670
Provisions: unwinding of discount	2,807	2,679
Total interest and finance charges	<u>25,164</u>	<u>38,561</u>
<i>Net loss on disposal of property, plant and equipment</i>	628	450
<i>Foreign exchange losses</i>	---	512
<i>Acquisition related costs</i>	3,868	---
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	65,654	68,532
Contingent rentals	7,027	4,367
Sub-leases	---	108
Total rental expense relating to operating leases	<u>72,681</u>	<u>73,007</u>
<i>Impairment of other assets</i>		
Inventories (included in the cost of goods sold amount above)	3,322	3,398
Trade receivables	8,323	3,951
Retail store fixed assets	---	9,476

**Note 8. Income tax expense**

	Consolidated	
	2010 \$'000	2009 \$'000
<b>(a) Income tax expense</b>		
Current tax	65,148	61,893
Deferred tax	(8,510)	(7,670)
Adjustments for current tax of prior periods	1,227	(1,015)
	57,865	53,208
Deferred income tax revenue included in income tax expense comprises:		
Increase in deferred tax assets (note 16)	(9,103)	(11,870)
Increase in deferred tax liabilities (note 23)	593	4,200
	(8,510)	(7,670)
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit from continuing operations before income tax expense	203,031	206,047
Tax at the Australian tax rate of 30% (2009: 30%)	60,909	61,814
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Net exempt income	(9,681)	(13,534)
Entertainment	248	528
Sundry items	36	---
Non-deductible permanent differences	4,015	7,847
	55,527	56,655
Difference in overseas tax rates	1,111	(2,066)
Under/(over) provision in prior years	1,227	(1,015)
Prior year tax losses previously not recognised	---	(366)
Income tax expense	57,865	53,208
<b>(c) Tax expense / (income) relating to items of other comprehensive income</b>		
Cash flow hedges (note 16, note 23)	6,215	(10,067)
Investment hedge (note 16, note 23)	(4,488)	3,210
	1,727	(6,857)
<b>(d) Tax losses</b>		
Unused tax losses for which no deferred tax asset has been recognised	17,672	5,282
Potential tax benefit @ 30%	5,302	1,585

All unused tax losses were incurred by entities that are not part of the Australian tax consolidated group.

**Note 8. Income tax expense (continued)**

**(e) 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(f).

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 intercompany receivables or payables.

The income tax expense for the financial year is \$57.9 million (2009: \$53.2 million), an effective tax rate of 28.5% (2009: 25.8%). The higher effective tax rate is driven by one-off adjustments in the US included in the prior year. Adjusting for these one-off prior year tax adjustments, the effective tax rate in the prior year would have been approximately 28.0%.

**Note 9. Current assets - Cash and cash equivalents**

	Consolidated	
	2010 \$'000	2009 \$'000
Cash at bank and in hand	206,326	204,861
Deposits at call	2,416	128,076
	208,742	332,937

**Interest rate risk exposure**

The Group's exposure to interest rate risk is discussed in note 2.

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**Notes to the financial statements 30 June 2010 : :**

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**Note 10. Current assets – Trade and other receivables**

	Consolidated	
	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
Trade receivables	410,549	396,212
Provision for impairment of receivables (note(a))	(21,521)	(23,133)
	389,028	373,079
Other receivables (note (c))	9,350	32,076
	398,378	405,155

**(a) Impaired trade receivables**

As at 30 June 2010 current trade receivables of the Group with a nominal value of \$26.1 million (2009: \$23.3 million) were impaired. The amount of the provision was \$21.5 million (2009: \$23.1 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:

	Consolidated	
	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
Up to 3 months	9,774	3,239
3 to 6 months	1,923	4,400
Over 6 months	14,392	15,697
	26,089	23,336

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

	Consolidated	
	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
At 1 July	23,133	16,033
Provision for impairment recognised during the year	8,323	9,906
Receivables written off during the year	(7,898)	(3,951)
Exchange differences	(2,037)	1,145
At 30 June	21,521	23,133

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 10. Current assets – Trade and other receivables (continued)**

**(b) Past due but not impaired**

As at 30 June 2010, trade receivables of \$82.8 million (2009: \$68.5 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:

	Consolidated	
	2010 \$'000	2009 \$'000
Up to 3 months	46,239	31,714
3 to 6 months	19,465	15,727
Over 6 months	17,105	21,045
	82,809	68,486

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**

This amount includes \$0.1 million (2009: \$23.5 million) relating to amounts recoverable under a debtor factoring arrangement. Other amounts generally arise from transactions outside the usual operating activities of the consolidated entity. Collateral is not normally obtained.

North American subsidiaries of the parent entity assign a portion of their accounts receivable to a factor under an agreement which continues on an annual basis. In the current financial year the use of this factoring arrangement was reduced and only a minor portion of the accounts receivable were factored. The factor is appointed solely as an agent to collect outstanding accounts receivable and at all times the outstanding amounts remain the property of, and all credit risk remains with, the North American subsidiaries of the parent entity. The subsidiaries may request advances on the net sales factored at any time before the amounts are collected on terms and conditions as may reasonably be requested by the factor which reduces the amounts owed by the factor to the North American subsidiaries per the agreement. The factor charges a commission on the net sales factored, and interest on any advances at prime rate.

**(d) Foreign exchange and interest rate risk**

Information about the Group's exposure to foreign currency 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.

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**Notes to the financial statements 30 June 2010 : :**

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**Note 11. Current assets – Inventories**

	Consolidated	
	2010	2009
	\$'000	\$'000
Raw materials and stores – at cost	4,901	6,234
Work in progress – at cost	8,971	7,185
Finished goods		
- at cost	194,293	199,974
- at net realisable value	32,235	40,277
	240,400	253,670

**Inventory expense**

Inventories recognised as an expense during the year ended 30 June 2010 amounted to \$672.2 million (2009: \$777.0 million). Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2010 amounted to \$3.3 million (2009: \$3.4 million). The expense has been included in 'cost of goods sold' in the income statement.

**Note 12. Current assets - Other**

	Consolidated	
	2010	2009
	\$'000	\$'000
Prepayments	22,185	18,263
Derivative financial assets (note 29)	5,396	300
	27,581	18,563

**Risk exposure**

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2.

**Note 13. Non-current assets - Receivables**

	Consolidated	
	2010	2009
	\$'000	\$'000
Other receivables	17,172	11,566
	17,172	11,566

Other receivables predominantly relate to store lease deposits.

**Non-current assets pledged as security**

Refer to note 22(c) for information on non-current assets pledged as security by the consolidated entity.

**(a) Impaired receivables and receivables past due**

None of the non-current receivables are impaired however US\$4.1 million is considered past due but not impaired.

**(b) Fair values**

The fair values and carrying values of non-current receivables are as follows:

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$'000	\$'000	\$'000	\$'000
<b>Consolidated</b>				
Other receivables	17,172	17,172	11,566	11,566
	17,172	17,172	11,566	11,566

**(c) Risk exposure**

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2.

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**Notes to the financial statements 30 June 2010 : :**

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**Note 14. Non-current assets – Property, plant and equipment**

<b>Consolidated</b>	<b>Land and buildings</b>	<b>Furniture, fittings and equipment</b>	<b>Leased plant &amp; equipment</b>	<b>Total</b>
	\$'000	\$'000	\$'000	\$'000
<b>At 30 June 2008</b>				
Cost or fair value	29,007	173,250	12,254	214,511
Accumulated depreciation	(1,923)	(74,221)	(4,247)	(80,391)
Net book amount	<u>27,084</u>	<u>99,029</u>	<u>8,007</u>	<u>134,120</u>
<b>Year ended 30 June 2009</b>				
Opening net book amount	27,084	99,029	8,007	134,120
Additions	13,724	50,850	---	64,574
Disposals	---	(277)	(270)	(547)
Depreciation charge	(577)	(35,928)	(1,114)	(37,619)
Impairment charge	---	(9,476)	---	(9,476)
Exchange differences	1,085	9,167	512	10,764
Closing net book amount	<u>41,316</u>	<u>113,365</u>	<u>7,135</u>	<u>161,816</u>
<b>At 30 June 2009</b>				
Cost or fair value	43,821	235,957	11,917	291,695
Accumulated depreciation	(2,505)	(122,592)	(4,782)	(129,879)
Net book amount	<u>41,316</u>	<u>113,365</u>	<u>7,135</u>	<u>161,816</u>

<b>Consolidated</b>	<b>Land and buildings</b>	<b>Furniture, fittings and equipment</b>	<b>Leased plant &amp; equipment</b>	<b>Total</b>
	\$'000	\$'000	\$'000	\$'000
<b>Year ended 30 June 2010</b>				
Opening net book amount	41,316	113,365	7,135	161,816
Additions	11,416	41,933	22	53,371
Disposals	---	(848)	(64)	(912)
Depreciation charge	(1,219)	(32,874)	(830)	(34,923)
Exchange differences	(534)	(7,183)	(1,158)	(8,875)
Closing net book amount	<u>50,979</u>	<u>114,393</u>	<u>5,105</u>	<u>170,477</u>
<b>At 30 June 2010</b>				
Cost or fair value	54,520	258,689	9,690	322,899
Accumulated depreciation	(3,541)	(144,296)	(4,585)	(152,422)
Net book amount	<u>50,979</u>	<u>114,393</u>	<u>5,105</u>	<u>170,477</u>

**Non-current assets pledged as security**

Refer to note 22(c) for information on non-current assets pledged as security by the controlled entity.

**Notes to the financial statements 30 June 2010 : :**

**Note 15. Non-current assets – Intangible assets**

Consolidated	Goodwill \$'000	Indefinite life		Finite life \$'000	Total \$'000
		Brands \$'000	Other * \$'000		
<b>At 30 June 2008</b>					
Cost	253,877	547,897	8,497	3,467	813,738
Accumulated amortisation	(10,098)	---	---	(2,743)	(12,841)
Net book amount	243,779	547,897	8,497	724	800,897
<b>Year ended 30 June 2009</b>					
Opening net book amount	243,779	547,897	8,497	724	800,897
Additions	111,200	66,840	2,390	1,229	181,659
Adjustment to contingent consideration	(28,344)	---	---	---	(28,344)
Amortisation charge	---	---	---	(515)	(515)
Exchange differences	34,062	11,454	136	142	45,794
Closing net book amount	360,697	626,191	11,023	1,580	999,491
<b>At 30 June 2009</b>					
Cost	370,848	626,191	11,023	5,019	1,013,081
Accumulated amortisation	(10,151)	---	---	(3,439)	(13,590)
Net book amount	360,697	626,191	11,023	1,580	999,491
Consolidated	Goodwill \$'000	Indefinite life		Finite life \$'000	Total \$'000
		Brands \$'000	Other * \$'000		
<b>Year ended 30 June 2010</b>					
Opening net book amount	360,697	626,191	11,023	1,580	999,491
Additions	22,953	---	929	1,861	25,743
Adjustment to contingent consideration	114,585	---	---	---	114,585
Amortisation charge	---	---	---	(649)	(649)
Exchange differences	(12,914)	(6,615)	(1,310)	(23)	(20,862)
Closing net book amount	485,321	619,576	10,642	2,769	1,118,308
<b>At 30 June 2010</b>					
Cost	495,469	619,576	10,642	6,816	1,132,503
Accumulated amortisation	(10,148)	---	---	(4,047)	(14,195)
Net book amount	485,321	619,576	10,642	2,769	1,118,308

\* 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 25.

**Amortisation charge**

Amortisation charge of \$0.6 million (2009: \$0.5 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 CGUs identified according to individual brands.

The recoverable amount of a CGU firstly is 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 to sell ("FVLCTS") is determined as AASB 136 requires the recoverable amount of a CGU to be the higher of VIU and FVLCTS. In applying the FVLCTS 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.

**Note 15. Non-current assets – Intangible assets (continued)****(a) Impairment tests for goodwill and brands (continued)**

	Goodwill Consolidated		Brands Consolidated	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Billabong	52,574	50,990	434,533	434,533
Element	850	850	25,733	25,733
Von Zipper	---	---	1,187	1,187
Kustom	3,746	3,746	10,540	10,540
Palmers	---	---	5,113	5,113
Honolua	7,751	8,140	4,385	4,385
Beachculture	---	---	853	853
Nixon	88,037	71,047	64,819	68,076
Amazon	---	---	1,141	1,123
Xcel	12,884	7,456	4,007	4,208
Tigerlily	1,889	1,889	3,600	3,600
Sector 9	35,202	24,914	10,607	11,140
DaKine	150,664	73,887	53,058	55,700
Australia	12,744	9,250	---	---
New Zealand	8,647	8,504	---	---
South Africa	41,433	42,407	---	---
North America	60,304	50,485	---	---
United Kingdom	8,596	7,132	---	---
	<b>485,321</b>	<b>360,697</b>	<b>619,576</b>	<b>626,191</b>

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

Pre-tax cash flow projections for brand CGUs are discounted using a pre-tax discount rate range between 12.0% and 14.0% (2009: 12.0% and 14.0%).

Pre-tax cash flow projections for regional CGUs with allocated goodwill only are discounted using a pre-tax discount rate between 12.5% and 16.8% (2009: 12.5% and 14.5%).

The discount rates used reflect specific risks relating to the relevant region of operation or the brand and are derived from the Group's weighted average cost of capital.

Terminal growth rates used in the value-in-use calculations range between 4.0% and 5.0% (2009: 4.0% and 5.0%). The terminal growth rates used reflect the maturity and establishment of the brand or region.

These assumptions have been used for the analysis of each CGU.

**(c) Key assumptions used for fair value less costs to sell calculations**

For the South Africa cash generating unit, its recoverable amount was determined using a fair value less costs to sell approach.

The cash flow forecasts used in the discounted cash flow model were based on past experience, economic trends such as GDP growth and inflation as well as industry and market trends. The forecasts also took into account the expected impact from new product initiatives, retail store expansion, and further distribution of group brands into the South Africa market. The forecasts were adopted by the Board and were for a period of ten years to reflect the capturing of the benefits of the new product initiatives.

The key assumptions used in performing the impairment test for South Africa CGU, were average sales growth and EBITDA margin over the forecast period of 10.0% and 17.9% respectively, terminal growth rate of 5.0% and a pre tax discount rate of 16.3%. The fair value less costs to sell of the South African CGU represented 111.7% of its carrying value. However, this is sensitive to changes in the key assumptions. Movements in key assumptions which would result in the recoverable amount of the South Africa CGU equalling its carrying value are if:

- Average sales growth reduced from 10.0% to 8.0%
- Average EBITDA margin reduced from 17.9% to 16.4%
- The discount rate increased from 16.3% to 17.3%

## Note 15. Non-current assets – Intangible assets (continued)

### (d) Indefinite useful life for brands

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 were:*

- The brands are well established and have experienced strong sales growth over time; 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 16. Non-current assets – Deferred tax assets

	Consolidated	
	2010 \$'000	2009 \$'000
<b>The deferred tax assets balance comprises temporary differences attributable to:</b>		
Trade and other receivables	10,090	1,896
Employee benefits	2,525	2,416
Inventories	10,848	11,460
Trade and other payables	10,615	4,635
Plant and equipment	3,409	---
Rights issue	1,556	2,593
Other	7,715	8,237
Tax losses	8,545	14,187
Finance lease liabilities	2,356	3,331
Cash flow hedges (note 27)	2,558	6,754
<b>Total deferred tax assets</b>	<b>60,217</b>	<b>55,509</b>
Set-off of deferred tax assets against deferred tax liabilities pursuant to set-off provisions (note 23)	(37,561)	(33,774)
<b>Net deferred tax assets</b>	<b>22,656</b>	<b>21,735</b>
<b>Movements:</b>		
Opening balance at 1 July	55,509	36,993
Credited to the income statement (note 8)	9,103	11,870
Credited to other comprehensive income (note 8)	1,907	6,890
Exchange differences	(6,505)	(1,024)
Acquisition of subsidiary (note 35)	203	780
<b>Closing balance at 30 June</b>	<b>60,217</b>	<b>55,509</b>
Deferred tax assets to be recovered after more than 12 months	36,926	23,135
Deferred tax assets to be recovered within 12 months	23,291	32,374
	<b>60,217</b>	<b>55,509</b>

## Note 17. Non-current assets - Other

	Consolidated	
	2010 \$'000	2009 \$'000
Prepayments	3,021	5,007
Derivative financial assets (note 29)	---	116
	<b>3,021</b>	<b>5,123</b>

**Note 18. Current liabilities – Trade and other payables**

	Consolidated	
	2010	2009
	\$'000	\$'000
Trade payables	175,750	200,393
Other payables	133,095	68,151
Derivative financial liabilities (note 29)	6,700	9,403
	315,545	277,947

**(a) Risk exposure**

Information about the Group's exposure to foreign exchange risk is provided in note 2.

**(b) Other payables**

Included in other payables is deferred payment payable of \$85.3 million (US\$72.4 million) relating to Quiet Flight and Nixon (2009: \$50.7 million deferred payment payable to Quiet Flight and South Africa licensee and second instalment payable for the DaKine acquisition).

**Note 19. Current liabilities – Borrowings**

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Secured</b>		
Bank loans	---	5
Lease liabilities (note 33)	11	167
Total secured current borrowings	11	172
<b>Unsecured</b>		
Bank loans	18,615	8,363
Lease liabilities (note 33)	1,365	1,496
Other loans	534	---
Total unsecured current borrowings	20,514	9,859
Total current borrowings	20,525	10,031

**(a) Bank loans**

Bank loans represent term loans with fixed and variable interest rates.

**(b) Other loans**

Other loans represent term loans with fixed interest rates.

**(c) 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 22.

**(d) Risk exposure**

Details of the Group's exposures to risks arising from current and non-current borrowings are set out in note 2.

**Note 20. Current liabilities – Current tax liabilities**

	Consolidated	
	2010 \$'000	2009 \$'000
Income tax	8,820	7,690

As shown on the consolidated balance sheet the current tax receivable is \$3.6 million (2009: \$10.5 million).

**Note 21. Current liabilities – Provisions**

	Consolidated	
	2010 \$'000	2009 \$'000
Employee benefits	9,889	13,483

**Note 22. Non-current liabilities – Borrowings**

	Consolidated	
	2010 \$'000	2009 \$'000
<b>Secured</b>		
Lease liabilities (note 33)	---	42
Total secured non-current borrowings	---	42
<b>Unsecured</b>		
Syndicated facility	380,547	519,035
Drawdown facility	23,063	25,667
Lease liabilities (note 33)	1,323	3,128
Total unsecured non-current borrowings	404,933	547,830
Total non-current borrowings	404,933	547,872

**(a) Syndicated facility**

The syndicated facility is utilised by the Group's major regions and is a multi-currency facility enabling the Group to borrow in Australian dollars (AUD), United States dollars (USD), Euro (EUR), Great Britain pounds (GBP), Japanese Yen (JPY), New Zealand dollars (NZD), Canadian dollars (CAD), Singapore dollars (SGD) and Hong Kong dollars (HKD). The syndicated facility has funding periods of 1, 2, 3, 4 and 6 calendar months. Interest is payable in arrears and calculated as the benchmark reference rate plus a margin. Applicable benchmark reference rates include: London Interbank Offered Rate (LIBOR); USD LIBOR; and Bank Bill Swap Rate (BBSY). The syndicated facility may be drawn at any time during the term of the facility provided the Company or Group does not trigger an event of default. As at 30 June 2009, the syndicated facility was structured on an unsecured basis with two and three year tranches of US\$266.75 million each. The syndicated facility was due for periodic review and roll-over on or prior to 1 July 2010 and 1 July 2011 for each of the two tranches respectively. The two year tranche under this facility, which was due for roll-over on or prior to 1 July 2010, was extended to 1 July 2012 on 11 August 2009 and the facility balance relating to this tranche was reduced from US\$266.75 million to US\$216.75 million.

On 4 August 2010, the Group renegotiated its Syndicated Revolving Multi-Currency Facility which included:

- an increase in the total facility balance from US\$483.5 million to US\$790.0 million to be split equally between the two tranches under the facility;
- an extension to 1 July 2013 of the three year tranche of the facility, to remain a three year facility; and
- an extension to 1 July 2014 of the three year tranche of the facility, to become a four year facility.

**Note 22. Non-current liabilities – Borrowings (continued)**

**(b) Drawdown facility**

The drawdown facility is utilised by the Group's major regions and enables the Group to borrow in Australian dollars (AUD), United States dollars (USD), Canadian dollars (CAD), Euro (EUR), Great Britain pounds (GBP) and Korean Won (KRW). The facility may be drawn at any time during the term of the facility provided the Company or Group does not trigger an event of default. The drawdown facility is due for periodic review. On 7 September 2009 the Group completed the extension of its US\$100 million unsecured multi-currency drawdown facility to 1 July 2012 which was due for rollover on or prior to 17 July 2010.

**(c) Assets pledged as security**

Finance lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

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

	Consolidated	
	2010 \$'000	2009 \$'000
<b>Current</b>		
<i>Floating charge</i>		
Cash and cash equivalents	---	849
Trade and other receivables	---	8,779
Total current assets pledged as security	---	9,628
<b>Non-current</b>		
<i>Finance lease</i>		
Plant and equipment	12	279
Total non-current assets pledged as security	12	279
Total assets pledged as security	12	9,907

**(d) Financing arrangements**

	Consolidated	
	2010 \$'000	2009 \$'000
<b>Credit standby arrangements</b>		
Total facilities		
Bank overdrafts and at-call facilities	12,064	18,269
Trade finance facilities	56,265	41,568
Syndicated, drawdown and other facilities	688,850	796,300
	757,179	856,137
Used at balance date		
Trade finance facilities	16,261	12,811
Syndicated, drawdown and other facilities	404,676	546,645
	420,937	559,456
Unused at balance date		
Bank overdrafts and at-call facilities	12,064	18,269
Trade finance facilities	40,004	28,757
Syndicated, drawdown and other facilities	284,174	249,655
	336,242	296,681
<b>Bank loan facilities</b>		
Total facilities	23,933	16,904
Used at balance date	18,615	8,368
Unused at balance date	5,318	8,536

**Note 22. Non-current liabilities – Borrowings (continued)**

**(d) Financing arrangements (continued)**

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.

**(e) Risk exposure**

Information about the Group's exposure to interest rate and foreign currency changes is provided in note 2.

**(f) Fair value**

The carrying amounts and fair values of borrowings at balance date are:

<b>Consolidated</b>	<b>2010</b>		<b>2009</b>	
	<b>Carrying amount \$'000</b>	<b>Fair value \$'000</b>	<b>Carrying amount \$'000</b>	<b>Fair value \$'000</b>
<b>On-balance sheet</b>				
Lease liabilities	2,699	2,598	4,833	4,705
	<u>2,699</u>	<u>2,598</u>	<u>4,833</u>	<u>4,705</u>

All other fair values equal the carrying values of borrowings.

Fair value is inclusive of costs which would be incurred on settlement of a liability. The fair value of the borrowings on balance sheet is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles. None of the borrowings are traded.

**Note 23. Non-current liabilities – Deferred tax liabilities**

	Consolidated	
	2010 \$'000	2009 \$'000
<b>The deferred tax liabilities balance comprises temporary differences attributable to:</b>		
Trade and other receivables	521	940
Property, plant and equipment	4,164	10,133
Prepayments	5,226	---
Other	7,478	6,608
Intangible assets – brands	72,366	72,457
Cash flow hedges (note 27)	2,621	133
Total deferred tax liabilities	92,376	90,271
Set-off of deferred tax assets pursuant to set-off provisions (note 16)	(37,561)	(33,774)
Net deferred tax liabilities	54,815	56,497
<b>Movements:</b>		
Opening balance at 1 July	90,271	80,208
Charged to the income statement (note 8)	593	4,200
Charged to other comprehensive income (note 8)	3,634	33
Exchange differences	(2,234)	4,111
Acquisition of subsidiary (note 35)	112	1,719
Closing balance at 30 June	92,376	90,271
Deferred tax liabilities to be settled after more than 12 months	89,719	86,191
Deferred tax liabilities to be settled within 12 months	2,657	4,080
	92,376	90,271

**Note 24. Non-current liabilities – Provisions and other payables**

	Consolidated	
	2010 \$'000	2009 \$'000
Employee benefits	3,593	3,267
Derivative financial liabilities (note 29)	9,192	9,523
Other	9,486	8,540
	22,271	21,330

**Note 25. Deferred payment**

The non-current deferred payment payable of \$155.9 million relates to the Xcel, Sector 9, DaKine, Two Seasons and Swell acquisitions (2009: \$108.7 million relates to Nixon, Xcel, Sector 9, DaKine and Two Seasons acquisitions). Included in note 18 'other payables' is deferred payment payable of \$85.3 million relating to Quiet Flight and Nixon (2009: \$16.9 million relates to Quiet Flight and South Africa licensee).

On 28 June 2010 a deferred payment was made to the South Africa Licensee. This amount has been included on the "Payments for purchase of subsidiaries and businesses, net of cash acquired" line in the cash flow statement. No further payments are due relating to this acquisition.

The deferred payment for Nixon was reclassified from non-current to current during the 2009/10 financial year and the underlying payable was restated (increased approximately US\$19 million) during the year ended 30 June 2010 taking into account the latest Board approved forecast.

**Note 25. Deferred payment (continued)**

The non-current deferred payment in relation to Xcel, Sector 9, DaKine and Two Seasons was restated during the year ended 30 June 2010 taking into account the latest Board approved forecast. This resulted in an increase in relation to Xcel of approximately US\$5 million, an increase in relation to DaKine of approximately US\$66 million and an increase in relation to Sector 9 of approximately US\$10 million in the underlying USD payable. This also resulted in an increase in relation to Two Seasons of approximately GBP 1 million in the underlying GBP payable.

**Note 26. Contributed equity**

	Notes	Consolidated		Consolidated	
		2010 Shares '000	2009 Shares '000	2010 \$'000	2009 \$'000
<b>(a) Share capital</b>					
Ordinary shares					
Fully paid	(b),(c)	253,123	252,018	668,810	656,061
Other equity securities	(d)	---	---	2,951	2,951
Total contributed equity		253,123	252,018	671,761	659,012

**(b) Movements in ordinary share capital:**

2009	Date	Details	Notes	Number of shares	\$'000
	1 July 2008	Opening balance		207,432,717	313,366
	8 August 2008	Exercise of Element options	(d)	4,846	39
	24 October 2008	Dividend reinvestment plan issue	(f)	679,669	8,143
	24 October 2008	Dividend reinvestment plan issue (underwritten)	(f)	1,761,958	21,390
	23 April 2009	Dividend reinvestment plan issue	(f)	1,845,692	15,448
	23 April 2009	Dividend reinvestment plan issue (underwritten)	(f)	1,513,035	12,876
	29 May 2009	Rights issue	(g)	30,563,449	229,226
	19 June 2009	Rights issue	(g)	8,216,393	61,623
					662,111
		Less: Transaction costs arising on rights issue	(g)		(8,643)
		Deferred tax credit recognised directly in equity	(g)		2,593
30 June 2009		Balance		252,017,759	656,061
<b>2010</b>					
	Date	Details	Notes	Number of shares	\$'000
	30 June 2009	Opening balance		252,017,759	656,061
		Dividend reinvestment plan issue	(f)	845,577	9,869
		Dividend reinvestment plan issue	(f)	259,216	2,880
30 June 2010		Balance		253,122,552	668,810

**(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.

## Note 26. Contributed equity (continued)

### (d) Other equity securities

The amount shown for other equity securities is the value of the options issued in relation to the Element acquisition. Each option is convertible into one ordinary share. Each option is not entitled to participate in dividends or the proceeds on winding up of the Company. Options issued as part of the Element acquisition are as follows:

	Date of Issue	No. of Options Issued	Exercise price	Date of exercise
2006	11 August 2005	5,981	\$13.69	10 August 2006
	11 August 2005	11,959	\$13.69	10 August 2007
	11 August 2005	5,981	\$13.69	10 August 2008
2005	11 August 2004	10,977	\$7.99	10 August 2005
	11 August 2004	21,952	\$7.99	10 August 2006
	11 August 2004	10,977	\$7.99	10 August 2007
2004	10 August 2003	15,032	\$6.32	9 August 2004
	10 August 2003	30,066	\$6.32	9 August 2005
	10 August 2003	15,032	\$6.32	9 August 2006
2003	10 August 2002	15,049	\$7.70	9 August 2003
	10 August 2002	30,096	\$7.70	9 August 2004
	10 August 2002	15,048	\$7.70	9 August 2005

### (e) Executive performance share plan

The Billabong Executive Performance Share Plan – Australia trust and the Billabong Executive Performance Share Plan trust holds 2,215,751 (2009: 1,885,301) shares on issue at the end of the year. Refer to note 42 for further information.

### (f) Dividend reinvestment plan

The Dividend Reinvestment Plan (“DRP”) was approved by the Directors on 21 August 2008. For the final dividend to be paid on 22 October 2010, the DRP is optional and offers ordinary shareholders the opportunity to acquire fully paid ordinary shares which rank equally with all other shares issued, without transaction costs, at the prevailing market value. A shareholder can elect to participate in or terminate their involvement in the DRP in respect of the 2010 final dividend at any time prior to the record date of 24 September 2010. The DRP in relation to the 2010 final dividend will not be underwritten. The terms of the DRP may be varied for future dividends beyond the final dividend for the year ended 30 June 2010.

### (g) Rights issue (prior year only)

#### *Institutional Entitlement Offer*

On 18 May 2009 the Company invited eligible institutional shareholders to participate in an accelerated non-renounceable pro-rata entitlement offer to subscribe for 2 new ordinary shares for every 11 existing ordinary shares at an issue price of \$7.50 per new share with such shares to be issued on, and rank for dividends after 29 May 2009. As a result, 30.6 million new shares were issued, resulting in gross cash proceeds of \$229.2 million. The entitlement offer was fully underwritten by Goldman Sachs JBWere.

#### *Retail Entitlement Offer*

On 25 May 2009 the Company invited eligible retail shareholders to participate in an accelerated non-renounceable pro-rata entitlement offer to subscribe for 2 new ordinary shares for every 11 existing ordinary shares at an issue price of \$7.50 per new share with such shares to be issued on, and rank for dividends after 19 June 2009. As a result, 8.2 million new shares were issued, resulting in gross cash proceeds of \$61.6 million. The entitlement offer was fully underwritten by Goldman Sachs JBWere.

#### *Expenses Arising From Rights Issue*

Costs incurred in relation to the rights issue up to and including 30 June 2009 were \$8.6 million (\$6.1 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 2009.

## Note 26. Contributed equity (continued)

### (h) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistently with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated 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 2010, the Group's strategy, which was unchanged from 2009, was to maintain a conservative gearing ratio for the Group. The gearing ratios at 30 June 2010 and 30 June 2009 were as follows:

	Notes	Consolidated	
		2010 \$'000	2009 \$'000
Total borrowings	19, 22	425,458	557,903
Less: cash and cash equivalents	9	(208,742)	(332,937)
Net debt		216,716	224,966
Total equity		1,217,579	1,176,936
Total capital		1,434,295	1,401,902
Gearing ratio		15%	16%

## Note 27. Treasury shares, reserves and retained profits

	Consolidated	
	2010 \$'000	2009 \$'000
(a) Treasury shares	(30,767)	(27,295)
<b>Movement:</b>		
Balance 1 July	(27,295)	(24,896)
Treasury shares held by employee share plan trusts	(3,472)	(7,194)
Employee share scheme issue	---	4,795
Balance 30 June	(30,767)	(27,295)

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 42 for further information).

Date	Details	Number of shares
1 July 2008	Opening balance	1,692,288
	Acquisition of shares by the employee share plan trusts	556,865
	Employee share scheme issue	(363,852)
30 June 2009	Balance	1,885,301
	Acquisition of shares by the employee share plan trusts	330,450
	Employee share scheme issue	---
30 June 2010	Balance	2,215,751



**Note 27. Treasury shares, reserves and retained profits (continued)**

**(c) Retained profits**

Movements in retained profits were as follows:

	Consolidated	
	<b>2010</b>	2009
	<b>\$'000</b>	<b>\$'000</b>
Balance 1 July	575,180	538,128
Net profit for the year	145,988	152,839
Dividends (note 28)	(90,878)	(115,787)
Balance 30 June	630,290	575,180

**(d) Nature and purpose of reserves**

*Option reserve*

The option reserve is used to recognise:

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

*Foreign currency translation reserve*

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, 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(n). Amounts are recognised in the income statement when the associated hedged transaction affects profit and loss.

*Other equity reserve*

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 28. Dividends**

	Parent entity	
	2010 \$'000	2009 \$'000
<b>(a) Ordinary shares</b>		
2009 final dividend of 18.0 cents per fully paid share paid on 23 October 2009 (2008 final dividend of 28.5 cents per fully paid share paid on 24 October 2008)		
Partially franked to 50% based on tax paid at 30%	45,363	---
Fully franked based on tax paid at 30%	---	59,120
2010 interim dividend of 18.0 cents per fully paid share paid on 22 April 2010 (2009 interim dividend of 27.0 cents per fully paid share paid on 23 April 2009)		
Partially franked to 50% based on tax paid at 30%	45,515	---
Partially franked to 45% based on tax paid at 30%	---	56,667
<b>Total dividends paid</b>	<b>90,878</b>	<b>115,787</b>
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the year ended 30 June 2010 is as follows:		
Paid in cash	78,129	92,196
Satisfied by issue of shares (note 26(b))	12,749	23,591
	<b>90,878</b>	<b>115,787</b>
<b>(b) Dividends not recognised at year end</b>		
In addition to the above dividends, since year end the Directors have resolved to pay a final dividend of 18.0 cents per fully paid ordinary share partially franked to 50% based on tax paid at 30% (2009: 18.0 cents partially franked to 50% based on tax paid at 30%). The aggregate amount of the proposed dividend expected to be paid on 22 October 2010 out of retained profits at 30 June 2010, but not recognised as a liability at year end, is	45,562	45,363

The unfranked portion of the dividend is declared to be conduit foreign income. Australian dividend withholding tax is not payable by non-resident shareholders on the unfranked portion of the dividend sourced from conduit foreign income.

**(c) Dividend reinvestment plan**

The Dividend Reinvestment Plan ("DRP") was approved by the Directors on 21 August 2008. For the final dividend to be paid on 22 October 2010, the DRP is optional and offers ordinary shareholders the opportunity to acquire fully paid ordinary shares which rank equally with all other shares issued, without transaction costs, at the prevailing market value. A shareholder can elect to participate in or terminate their involvement in the DRP in respect of the 2010 final dividend at any time prior to the record date of 24 September 2010. The DRP in relation to the 2010 final dividend will not be underwritten. The terms of the DRP may be varied for future dividends beyond the final dividend for the year ended 30 June 2010.

## Note 28. Dividends (continued)

### (d) Franked dividends

The franked portions of the final dividends recommended after 30 June 2010 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 2011.

Franking credits available for subsequent financial years to the equity holders of the parent entity based on a tax rate of 30% (2009: 30%)

Parent entity	
2010	2009
\$'000	\$'000
4,100	170

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.

The impact on the franking account of the dividend recommended by the Directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of \$9.8 million (2009: \$9.7 million).

## Note 29. Derivative financial instruments

		Consolidated	
		2010	2009
		\$'000	\$'000
Notes			
<b>Current assets</b>			
	Forward foreign exchange contracts – cash flow hedges	5,396	300
	Total current derivative financial instrument assets	5,396	300
<b>Non-current assets</b>			
	Forward foreign exchange contracts – cash flow hedges	---	116
	Total non-current derivative financial instrument assets	---	116
<b>Current liabilities</b>			
	Forward foreign exchange contracts – cash flow hedges	1,853	9,403
	Interest rate swap contracts – cash flow hedges	4,847	---
	Total current derivative financial instrument liabilities	6,700	9,403
<b>Non-current liabilities</b>			
	Interest rate swap contracts – cash flow hedges	---	9,523
	Other derivative liability *	9,192	---
	Total non-current derivative financial instrument liabilities	9,192	9,523
	Net derivative financial instruments	(10,496)	(18,510)

\* The other derivative liability relates to the symmetrical put and call options relating to the acquisition of the non-controlling interest.

**Note 29. Derivative financial instruments (continued)**

**(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) Interest rate swap contracts – cash flow hedges*

The Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The contracts are settled on a net basis and the net amount receivable or payable at the reporting date is included in other debtors or other creditors. At balance date the notional principal amount of the interest rate swap contracts covered 50% (2009: 51%) of outstanding USD denominated cash advances. The contract requires settlement of net interest receivable or payable every three months. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

Details of the interest rate swap contracts outstanding at balance date are set out below:

<b>Notional principal amount</b>	<b>Expiry</b>	<b>Fixed interest rate</b>	<b>90 day bank bill rate at 30 June 2010</b>
US\$60 million (2009: US\$60 million)	January 2011	3.9% (2009: 3.9%)	0.5% (2009: 0.6%)
US\$100 million (2009: US\$100 million)	January 2011	3.9% (2009: 3.9%)	0.5% (2009: 0.6%)

The gain or loss from remeasuring the hedging instruments at fair value is deferred to equity in the cash flow hedge reserve, to the extent that the hedge is effective, and reclassified into the income statement when the hedged interest expense is recognised. The ineffective portion is recognised in the income statement immediately.

At balance date the fair value of the interest rate swap contracts were US\$4.1 million derivative financial instrument liabilities (2009: US\$7.7 million derivative financial instrument liabilities).

**Note 29. Derivative financial instruments (continued)**

*(ii) 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 US dollars, Euro and Australian dollars. The contracts are hedging highly probable forecast purchases for the upcoming season and are timed to mature when major shipments of inventory are scheduled to arrive.

The cash flows are expected to occur at various dates within one year from the balance date. At balance date, the details of outstanding contracts are:

	Buy USD		Average exchange rate	
	2010 US\$'000	2009 US\$'000	2010	2009
<b>0 – 6 Months</b>				
Sell Euro	52,214	49,924	1.3315	1.3521
Sell AUD	20,000	19,700	0.8745	0.7113
Sell BRL	1,000	---	0.5459	---
Sell CAD	3,500	4,235	0.9646	0.9003
Sell Yen	3,602	1,673	0.0111	0.0104
Sell ZAR	2,441	4,600	0.1249	0.1005
<b>6 – 12 Months</b>				
Sell Euro	12,215	12,000	1.2119	1.4121
Sell Yen	2,900	850	0.0112	0.0105
Sell ZAR	350	750	0.1224	0.1170

	Buy Euro		Average exchange rate	
	2010 EUR'000	2009 EUR'000	2010	2009
<b>0 – 6 Months</b>				
Sell GBP	3,329	6,455	0.9011	0.9218
<b>6 – 12 Months</b>				
Sell GBP	4,692	3,444	0.8312	0.8709

	Buy AUD		Average exchange rate	
	2010 AU\$'000	2009 AU\$'000	2010	2009
<b>0 – 6 Months</b>				
Sell NZD	3,250	3,150	0.8062	0.8189
Sell Yen	102	150	0.0124	0.0136
<b>6 – 12 Months</b>				
Sell NZD	750	1,000	0.8061	0.7834
Sell Yen	710	150	0.0134	0.0136

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 assets of \$3.5 million (2009: net liabilities of \$7.8 million).

The South African Derivative Products facility is secured by local debtors.

**Note 29. Derivative financial instruments (continued)**

*(iii) Forward exchange contracts – cash flow hedges – debt repayments (prior year only)*

In the prior year in order to protect against exchange rate movements on scheduled repayment of drawn debt segments under the Group's syndicated facility, the Group entered into forward exchange contracts to purchase Japanese Yen, Canadian dollars and Euros. The contracts were timed to mature when the debt facility was due for rollover.

The cash flows were expected to occur at various dates within six months from the balance date. At balance date, the details of outstanding contracts are:

<b>Consolidated</b>	Buy JPY	Average exchange rate
	<b>2010</b> JPY'000	<b>2010</b> 2009
	---	---
<b>0 – 6 Months</b> Sell AUD	480,000	76.16
	Buy CAD	Average exchange rate
	<b>2010</b> CA\$'000	<b>2010</b> 2009
	---	---
<b>0 – 6 Months</b> Sell AUD	9,000	0.8919
	Buy Euros	Average exchange rate
	<b>2010</b> EUR'000	<b>2010</b> 2009
	---	---
<b>0 – 6 Months</b> Sell AUD	50,000	0.5705

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 liability recognised in the balance sheet by the related amount deferred in equity.

At balance date these contracts were net liabilities of nil (2009: \$1.1 million).

*(iv) Hedge of net investment in foreign entity*

The foreign exchange loss of \$17.0 million (2009: gain of \$17.3 million) on translation of inter-company loans to Australian dollars at reporting date is transferred to the foreign currency translation reserve, in equity (note 27(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 is provided in note 2.

**Note 30. Key management personnel disclosures**

**(a) Directors**

The following persons were Directors of Billabong International Limited during the financial year:

(i) *Non-Executive Chairman*  
E.T. Kunkel

(ii) *Executive Directors*  
D. O'Neill, Chief Executive Officer  
P. Naude, General Manager, Billabong USA

(iii) *Non-Executive Directors*  
A.G. Froggatt  
M.A. Jackson  
F.A. McDonald  
G.S. Merchant  
C. Paull

**(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:

<i>Name</i>	<i>Position</i>	<i>Employer</i>
F. Fogliato	General Manager, Billabong Europe	GSM Europe Pty Ltd
C. Kyriotis	General Manager, Billabong South Americas	GSM Brasil Ltda
S. North	General Manager, Billabong Australasia	GSM (Operations) Pty Ltd
J. Schillereff	President, Element Skateboards, Inc	Element Skateboards, Inc
C. White	Chief Financial Officer	GSM (Operations) Pty Ltd

**(c) Key management personnel compensation**

	Consolidated	
	2010 \$'000	2009 \$'000
Short-term employee benefits	8,934	8,332
Long-term employee benefits – long service leave	48	31
Post-employment benefits	142	142
Share-based payments	1,502	(335)
	10,626	8,170

Detailed remuneration disclosures are provided in sections A – F of the remuneration report.

**Note 30. Key management personnel disclosures (continued)**

**(d) Equity instrument disclosures relating to key management personnel**

*(i) Options provided as remuneration and shares issued on exercise of such options*

Details of options provided as remuneration and shares issued on the exercise of such options, together with the terms and conditions of the options, can be found in section F of the remuneration report.

*(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.

2010 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
<b>Directors of Billabong International Limited</b>						
D. O'Neill	629,007	---	---	---	629,007	---
P. Naude	524,170	---	---	---	524,170	---
<b>Other key management personnel of the Group</b>						
F. Fogliato	314,503	---	---	---	314,503	---
S. North	314,503	---	---	---	314,503	---
C. White	314,503	---	---	---	314,503	---

2009 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
<b>Directors of Billabong International Limited</b>						
D. O'Neill	---	629,007	---	---	629,007	---
P. Naude	---	524,170	---	---	524,170	---
<b>Other key management personnel of the Group</b>						
F. Fogliato	---	314,503	---	---	314,503	---
S. North	---	314,503	---	---	314,503	---
C. White	---	314,503	---	---	314,503	---

*(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 section F of 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.

2010 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
<b>Directors of Billabong International Limited</b>						
D. O'Neill	172,190	88,170	---	(44,123)	216,237	---
P. Naude	152,682	76,262	---	(41,917)	187,027	---
<b>Other key management personnel of the Group</b>						
F. Fogliato	80,971	43,284	---	(18,101)	106,154	---
C. Kypriotis	44,365	22,443	---	(11,766)	55,042	---
S. North	84,941	44,085	---	(20,907)	108,119	---
J. Schillereff	22,119	8,014	---	(7,202)	22,931	---
C. White	100,156	50,956	---	(26,148)	124,964	---

**Note 30. Key management personnel disclosures (continued)**

2009 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
<b>Directors of Billabong International Limited</b>						
D. O'Neill	145,982	71,704	(39,809)	(5,687)	172,190	---
P. Naude	136,158	62,020	(39,809)	(5,687)	152,682	---
<b>Other key management personnel of the Group</b>						
F. Fogliato	60,936	35,200	(13,269)	(1,896)	80,971	---
C. Kypriotis	36,729	18,252	(9,289)	(1,327)	44,365	---
S. North	71,331	35,852	(19,462)	(2,780)	84,941	---
J. Schillereff	23,411	6,518	(6,834)	(976)	22,119	---
C. White	86,013	41,440	(23,885)	(3,412)	100,156	---

*(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.

2010 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	Balance at the end of the year
<b>Directors of Billabong International Limited</b>					
E.T. Kunkel	116,033	---	---	402	116,435
D. O'Neill	1,467,779	---	---	(350,263)	1,117,516
A.G.Froggatt	7,505	---	---	---	7,505
M.A. Jackson	270,259	---	---	5,579	275,838
F.A. McDonald	153,046	---	---	---	153,046
G.S. Merchant	37,770,098	---	---	---	37,770,098
P. Naude	1,175,988	---	---	(70,000)	1,105,988
C. Paull	2,973,289	---	---	---	2,973,289
<b>Other key management personnel of the Group</b>					
F. Fogliato	25,191	---	---	---	25,191
C. Kypriotis	21,211	---	---	---	21,211
S. North	70,452	---	---	---	70,452
J. Schillereff	67,908	---	---	(20,360)	47,548
C. White	30,029	---	---	(20,029)	10,000

**Note 30. Key management personnel disclosures (continued)**

2009 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	Balance at the end of the year
<b>Directors of Billabong International Limited</b>					
E.T. Kunkel	94,466	---	---	21,567	116,033
D. O'Neill	1,026,821	39,809	---	401,149	1,467,779
A.G.Froggatt	---	---	---	7,505	7,505
M.A. Jackson	228,656	---	---	41,603	270,259
F.A. McDonald	129,500	---	---	23,546	153,046
G.S. Merchant	31,442,183	---	---	6,327,915	37,770,098
P. Naude	1,831,179	39,809	---	(695,000)	1,175,988
C. Paull	2,515,867	---	---	457,422	2,973,289
<b>Other key management personnel of the Group</b>					
F. Fogliato	11,922	13,269	---	---	25,191
C. Kyriotis	11,922	9,289	---	---	21,211
S. North	356,956	19,462	---	(305,966)	70,452
J. Schillereff	63,671	6,834	---	(2,597)	67,908
C. White	56,840	23,885	---	(50,696)	30,029

**(e) Other transactions with Directors and other key management personnel****Directors of Billabong International Limited**

During 2009 and 2010 Burleigh Point Limited utilised property of Director P. Naude for use in certain advertising and promotional activities. There was no consideration paid by Burleigh Point Limited to P. Naude for use of the property.

The Company leases a retail store in South Africa from the wife of Director P. Naude. The rental agreement is based on normal commercial terms and conditions.

**Key management personnel of the consolidated entity**

Mr J. Schillereff was a Director of Element Skate Inc at the time the Company acquired the assets comprising the "Element" skate operation. The transaction was effective from 1 July 2002 and as part of the consideration paid by the Company for these assets Mr J. Schillereff was granted 423,053 options. Additionally, as part of the acquisition terms, Mr J. Schillereff was entitled to receive four further tranches of options, granted in August following the first, second, third and fourth anniversary of the transaction. The terms and conditions of each grant of options under the Element acquisition agreement to 30 June 2010 are as follows:

Grant date	Expiry date	Exercise price	Number of options granted	Value per option at grant date	Date exercisable
04 Jul 01	30 Jun 05	\$5.35	423,053	\$1.74	25% after 30 Jun 02; 50% after 30 Jun 03; 25% after 30 Jun 04
10 Aug 02	09 Aug 06	\$7.70	8,847	\$1.25	25% after 9 Aug 03; 50% after 9 Aug 04; 25% after 9 Aug 05
10 Aug 03	09 Aug 07	\$6.32	8,836	\$1.42	25% after 9 Aug 04; 50% after 9 Aug 05; 25% after 9 Aug 06
11 Aug 04	10 Aug 08	\$7.99	6,453	\$1.26	25% after 10 Aug 05; 50% after 10 Aug 06; 25% after 10 Aug 07
11 Aug 05	10 Aug 09	\$13.69	3,516	\$2.22	25% after 10 Aug 06; 50% after 10 Aug 07; 25% after 10 Aug 08

**Note 31. 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:

	Consolidated	
	2010 \$'000	2009 \$'000
<b>(a) Audit services</b>		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports	683	726
Related practices of PricewaterhouseCoopers Australian firm	861	859
<b>Total remuneration for audit services</b>	<b>1,544</b>	<b>1,585</b>
<b>(b) Non-audit services</b>		
<i>Audit-related services</i>		
PricewaterhouseCoopers Australian firm		
General accounting advice	67	---
Related practices of PricewaterhouseCoopers Australian firm		
Due diligence services	351	357
General accounting advice	31	58
<b>Total remuneration for audit-related services</b>	<b>449</b>	<b>415</b>
<i>Taxation services</i>		
PricewaterhouseCoopers Australian firm		
International tax consulting together with separate tax advice on acquisitions	814	3,204
Related practices of PricewaterhouseCoopers Australian firm		
International tax consulting together with separate tax advice on acquisitions	1,357	1,156
<b>Total remuneration for taxation services</b>	<b>2,171</b>	<b>4,360</b>
<b>Total remuneration for non-audit services</b>	<b>2,620</b>	<b>4,775</b>

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.

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 32. Contingencies**

Details and estimates of maximum amounts of contingent liabilities as at 30 June 2010 are as follows:

**Guarantees**

The Group had secured guarantees of \$0.9 million (2009: \$9.9 million).

The Group had unsecured guarantees in respect of operating leases of \$1.0 million (2009: \$3.8 million).

**Contingent Consideration**

In the event that certain future performance and management retention conditions are achieved, additional consideration may be payable in cash in relation to the Nixon, Quiet Flight, Xcel, Sector 9, DaKine, Two Seasons and Swell acquisitions. As at 30 June 2010, the deferred consideration relating to these acquisitions has been fully recognised taking into account the latest Board approved forecast. Refer to note 25.

At future reporting dates the Group will review these payments and restate, where applicable, should the earnings forecast change.

**Trade Letters of Credit**

The Group had \$10.5 million letters of credit in favour of suppliers executed but undrawn as at 30 June 2010 (2009: \$26.1 million). The letters of credit related to the purchase of inventory in the 2010/11 financial year and are part of the ordinary course of business.

No material losses are anticipated in respect of any of the above contingent liabilities.

**Note 33. Commitments**

**(a) Lease commitments**

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:

Within one year  
 Later than one year but not later than five years  
 Later than five years

	Consolidated	
	2010 \$'000	2009 \$'000
	62,980	62,696
	173,369	175,193
	51,167	63,178
	<b>287,516</b>	<b>301,067</b>
Representing:		
Non-cancellable operating leases	287,348	300,623
Future finance charges on finance leases	168	444
	<b>287,516</b>	<b>301,067</b>

**Note 33. 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.

	Consolidated	
	2010	2009
	\$'000	\$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	62,857	62,450
Later than one year but not later than five years	173,324	174,995
Later than five years	51,167	63,178
	287,348	300,623

*(ii) Finance leases*

The Group leases various plant and equipment with a carrying amount of \$5.1 million (2009: \$7.1 million).

	Consolidated	
	2010	2009
	\$'000	\$'000
Commitments in relation to finance leases are payable as follows:		
Within one year	1,499	1,843
Later than one year but not later than five years	1,368	3,369
Later than five years	---	65
Minimum lease payments	2,867	5,277
Future finance charges	(168)	(444)
Total lease liabilities recognised as a liability	2,699	4,833
Representing lease liabilities:		
Current (note 19)	1,376	1,663
Non-current (note 22)	1,323	3,170
	2,699	4,833
The present value of finance lease liabilities is as follows:		
Within one year	1,376	1,663
Later than one year but not later than five years	1,323	3,105
Later than five years	---	65
Minimum lease payments	2,699	4,833

**(b) Contests and Athletes**

Commitments in relation to sponsorship of athletes and contests are payable as follows:

	Consolidated	
	2010	2009
	\$'000	\$'000
Within one year	13,144	15,836
Later than one year but not later than five years	15,536	17,386
	28,680	33,222

**(c) Remuneration commitments**

Employment contracts for key management personnel do not have a fixed end date and therefore have not been included in the above note.

**Note 33. Commitments (continued)**

	Consolidated	
	<b>2010</b>	2009
	<b>\$'000</b>	<b>\$'000</b>
<b>(d) Capital commitments</b>		
Commitments in relation to capital commitments are payable as follows:		
Within one year	---	1,094
Later than one year but not later than five years	---	96
Later than five years	---	96
	---	1,286
	---	1,286

**Note 34. 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 36.

**(c) Key management personnel**

Disclosures relating to key management personnel are set out in note 30.

**Note 35. Business combinations**

**Purchase consideration – cash outflow**

	<b>2010</b>	<b>Consolidated</b>
	<b>\$'000</b>	<b>2009</b>
		<b>\$'000</b>
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	9,894	133,706
Less: Cash balances acquired	(434)	---
	9,460	133,706
Direct costs relating to the acquisitions	---	3,020
Payments relating to prior year acquisitions	40,131	7,034
	49,591	143,760
Outflow of cash – investing activities		
Direct costs relating to the acquisitions	944	---
	944	---
Outflow of cash – operating activities		

*Acquisition related costs*

Acquisition related costs of \$0.9 million are included in other expenses in profit or loss and in operating activities in the cash flow statement. These acquisition related costs are only the amounts in relation to acquisitions completed in the year ended 30 June 2010 which is different to the amounts disclosed in note 7 which relate to all acquisitions, including those which are yet to be completed.

Acquisition related costs have been expensed as incurred in the current year. In the prior year, they were recognised as part of the cost of acquisition and therefore included in goodwill and investing activities in the cash flow statement.

**2010**

*(a) Summary of acquisitions*

On 1 November 2009 GSM Online Retail, Inc. and Seal Trademarks Pty Ltd acquired the assets and certain liabilities of Swell Commerce, Inc., a leading online retailer in the US boardsport sector. The acquisition has increased the Group's market share in the US online boardsports retail sector.

On 1 December 2009 GSM (Operations) Pty Ltd acquired 20% of the issued share capital of Surfstitch Pty Ltd, a leading Australian online boardsport retailer, and control of the entity through the acquisition of greater than 50% of the voting rights. The acquisition has increased the Group's market share in the Australian online boardsports retail sector.

Surfstitch Pty Ltd has been fully consolidated from the date on which control was transferred to the Group. GSM (Operations) Pty Ltd has options to acquire the remaining 80% of the business.

From 1 January 2010 GSM (Europe) Pty Ltd has acquired the DaKine distribution rights from distributors of DaKine products in Austria, Belgium, France, Germany and Luxembourg. GSM (Europe) Pty Ltd now has exclusive rights to distribute DaKine products in these countries.

On 23 April 2010 GSM (Europe) Pty Ltd and GSM Czech Republic s.r.o. acquired the assets and certain liabilities of OTTY s.r.o. a company duly established and existing in accordance with the laws of the Czech Republic. The acquisition has increased the Group's market share in Europe.

On 1 May 2010 Billabong Retail, Inc. and Seal Trademarks Pty Ltd acquired the assets and certain liabilities of Becker Surf Boards, Inc., a US retail chain featuring surf and related lifestyle apparel and accessories. The acquisition has increased the Group's market share in the US retail sector.

**Note 35. Business combinations**

*(a) Summary of acquisitions (continued)*

Details of the aggregated purchase consideration, the net assets acquired and goodwill are as follows:

	<b>\$'000</b>
Purchase consideration:	
Cash paid	9,894
Estimated cash payable	2,699
Contingent consideration	7,277
Total purchase consideration	<u>19,870</u>

The assets and liabilities recognised as a result of the acquisition are as follows:

	<b>Fair value \$'000</b>
Cash and cash equivalents	434
Trade receivables	122
Inventory	6,194
Plant and Equipment	1,117
Prepayments	476
Deferred tax assets	203
Employee entitlements	(162)
Trade and other payables	(5,745)
Deferred tax liabilities	(112)
Identifiable intangible assets	212
Net identifiable assets acquired	<u>2,739</u>
Less: non-controlling interests	(1,642)
Add: goodwill	<u>18,773</u>
Net assets acquired	<u>19,870</u>

Goodwill is attributable to the workforce and synergies expected to arise after the acquisition of the businesses. Goodwill is only deductible in the United States of America for tax purposes. For acquisitions that occurred in the year ended 30 June 2010, up to US\$10.1 million will be deductible for tax purposes.

*(i) Contingent consideration*

In relation to the acquisition of the assets and certain liabilities of Swell Commerce, Inc., in the event that certain pre-determined earnings targets are achieved for the year ended 30 June 2012, additional consideration of between US\$0 and up to a maximum of US\$7 million may be payable in cash.

*(ii) Acquired receivables*

The fair value of acquired trade receivables is \$0.1 million. The gross contractual amount is equal to the fair value of the acquired trade receivables. There were no acquired trade receivables that are expected to be uncollectible.

*(iii) Non-controlling interests*

In accordance with the accounting policy set out in note 1(h), the Group elected to recognise the non-controlling interests in Surfstitch Pty Ltd as its proportionate share of the acquired net identifiable assets.

*(iv) Option to acquire*

In February 2010, the Group entered into an exclusive 10-year agreement to license the California-based skateboard brand, Plan B. In addition to the license agreement, on 25 February 2010 Seal Trademarks Pty Ltd and CMDW, Inc signed a Purchase Option Agreement for the purchase of the Intellectual Property of Plan B Skateboards. The option period is from the date of the agreement, being 25 February 2010, until 5:00 pm on the day 10 years later, unless earlier lapsed and can be exercised by Seal Trademarks Pty Ltd at any time during the option period.

## Note 35. Business combinations

### (iv) Revenue and profit contribution

The acquired businesses contributed revenues of \$22.0 million and net profit after tax and non-controlling interests of \$2.3 million to the Group for the period from each acquisition to 30 June 2010.

If the acquisitions had occurred on 1 July 2009, consolidated revenue and consolidated net profit after tax and non-controlling interests for the year ended 30 June 2010 would have been \$1,502.5 million and \$145.7 million respectively based on best estimates.

### 2009

#### Da Kine Hawaii, Inc

### (a) Summary of acquisition

On 1 October 2008 Burleigh Point, Ltd and Seal Trademarks Pty Ltd acquired the assets and certain liabilities of Da Kine Hawaii, Inc.

The acquired business contributed revenues of \$97.2 million and net profit after tax of \$10.1 million to the Group for the period from acquisition to 30 June 2009.

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

	\$'000
Purchase consideration:	
Cash paid	98,622
Estimated cash payable	34,430 *
Estimated deferred payment	39,868
Direct costs relating to the acquisition	1,412
Total purchase consideration	174,332
Fair value of net identifiable assets acquired	99,148
Goodwill	75,184

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

\* This amount has been paid during the year ended 30 June 2010 – refer to the consolidated cash flow statement.

### (b) Assets and liabilities acquired

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

	Acquiree's carrying amount \$'000	Fair value \$'000
Cash and cash equivalents	---	---
Trade receivables	25,460	25,460
Inventory	18,840	18,272
Plant and Equipment	1,113	1,113
Prepayments	981	981
Deferred tax assets	---	527
Employee entitlements	(128)	(128)
Trade and other payables	(2,784)	(2,784)
Deferred tax liabilities	---	(1,223)
Identifiable intangible assets	---	56,930
Net identifiable assets acquired	43,482	99,148

**Note 35. Business combinations (continued)**

In regards to the 'Da Kine Hawaii, Inc' acquisition, in the event that certain specific conditions are achieved additional consideration may be payable in cash. If it becomes probable that additional consideration will be payable it will be brought to account as a component of the goodwill arising on the acquisition when the amount can be reliably measured. The Group will review the likelihood of these payments at future reporting dates. Refer to note 25 and note 32.

The 'Da Kine Hawaii, Inc' acquisition was disclosed provisionally in the interim financial report for the half-year ended 31 December 2008. As part of the finalisation of the acquisition, the completion statement has been reviewed and an adjustment was made to working capital, which was the only significant adjustment to the provisional values disclosed in the interim financial report.

**Sector 9 Incorporated, Eternity Surf Pty Limited, I.J.J. Pty Limited and Two Seasons Limited**

*(a) Summary of acquisitions*

On 1 July 2008 Burleigh Point, Ltd and Seal Trademarks Pty Ltd acquired the assets and certain liabilities of Sector 9 Incorporated.

On 1 September 2008 GSM (Operations) Pty Limited and Pineapple Trademarks Pty Ltd acquired the assets and certain liabilities of Eternity Surf Pty Limited and I.J.J. Pty Limited.

On 1 October 2008 GSM England Retail Limited acquired 100% of the issued shares of Two Seasons Limited.

The acquired businesses and subsidiary contributed revenues of \$46.9 million and net profit after tax of \$3.0 million to the Group for the period from acquisition to 30 June 2009.

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

	<b>\$'000</b>
Purchase consideration:	
Cash paid	35,084
Estimated deferred payment	9,110
Direct costs relating to the acquisitions	1,608
Total purchase consideration	45,802
Fair value of net identifiable assets acquired	14,314
Goodwill	31,488

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

*(b) Assets and liabilities acquired*

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

	Acquiree's carrying amount \$'000	Fair value \$'000
Cash and cash equivalents	---	---
Trade receivables	2,432	2,405
Inventory	8,454	7,890
Plant and Equipment	2,539	1,782
Prepayments	794	794
Deferred tax assets	---	253
Employee entitlements	(144)	(144)
Trade and other payables	(7,614)	(7,614)
Deferred tax liabilities	(183)	(496)
Identifiable intangible assets	---	9,444
Net identifiable assets acquired	6,278	14,314

**Note 35. Business combinations (continued)**

In regards to the 'Sector 9 Incorporated' and 'Two Seasons Limited' acquisitions, in the event that certain specific conditions are achieved additional consideration may be payable in cash. If it becomes probable that additional consideration will be payable it will be brought to account as a component of the goodwill arising on the acquisition when the amount can be reliably measured. The Group will review the likelihood of these payments at future reporting dates. Refer to note 25 and note 32.

The above accounting in regards to the 'Two Seasons Limited' acquisition has been finalised and there have been no material adjustments to the provisional accounting.

If all of the above mentioned acquisitions had occurred on 1 July 2008, consolidated revenue and consolidated net profit after tax for the year ended 30 June 2009 would have been \$1,713.0 million and \$155.2 million respectively based on best estimates.

**Note 36. 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 **	
				2010 %	2009 %
Amazon (New Zealand) Pty Ltd	*	Australia	Ordinary	100	100
Beach Culture International Pty Ltd		Australia	Ordinary	100	100
Billabong Retail, Inc		USA	Ordinary	100	100
Burleigh Point Canada, Inc		Canada	Ordinary	100	100
Burleigh Point, Ltd		USA	Ordinary	100	100
Element Skateboards, Inc		USA	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 Investments Ltd		USA	Ordinary	100	100
GSM Rocket Australia Pty Ltd		Australia	Ordinary	100	100
GSM Trading (Singapore) Pty Ltd		Australia	Ordinary	100	100
Honolua Surf International Ltd		USA	Ordinary	100	100
Nixon Europe SARL		France	Ordinary	100	100
Nixon Inc		USA	Ordinary	100	100
Nixon Pacific Pty Ltd		Australia	Ordinary	100	100
Pineapple Trademarks Pty Ltd	*	Australia	Ordinary	100	100
Rocket Trademarks Pty Ltd	*	Australia	Ordinary	100	100
VeeZee, Inc		USA	Ordinary	100	100

\* 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 37.

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

**Note 37. Deed of cross guarantee**

Billabong International Limited, GSM (Europe) Pty Ltd, GSM (Operations) Pty Ltd, GSM (Trademarks) Pty Ltd, Pineapple Trademarks Pty Ltd, Rocket Trademarks Pty Ltd, GSM (Central Sourcing) Pty Ltd, Amazon (New Zealand) Pty Ltd and GSM Trading (South Africa) 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 income 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 is the condensed consolidated income statement, a consolidated statement of comprehensive income and a summary of movements in consolidated retained profits for the years ended 30 June 2010 and 30 June 2009 of the Closed Group consisting of Billabong International Limited, GSM (Europe) Pty Ltd, GSM (Operations) Pty Ltd, GSM (Trademarks) Pty Ltd, Pineapple Trademarks Pty Ltd, Rocket Trademarks Pty Ltd, GSM (Central Sourcing) Pty Ltd, Amazon (New Zealand) Pty Ltd and GSM Trading (South Africa) Pty Ltd.

	2010 \$'000	2009 \$'000
<b>Income statement</b>		
<b>Revenue from continuing operations</b>	890,952	757,580
Other income	3,603	10,996
Finance costs	(9,786)	(30,067)
Other expenses	(656,248)	(529,642)
<b>Profit before income tax</b>	228,521	208,867
Income tax expense	(43,803)	(45,514)
<b>Profit for the year</b>	184,718	163,353
Loss attributable to non-controlling interests	822	---
<b>Profit for the year attributable to the members of the closed group</b>	185,540	163,353
<b>Statement of comprehensive income</b>		
<b>Profit for the year</b>	184,718	163,353
<b>Other comprehensive income</b>		
Changes in the fair value of cash flow hedges, net of tax	7,690	(3,825)
Exchange differences on translation of foreign operations	(26,703)	29,312
Net investment hedge, net of tax	(7,940)	(16,493)
<b>Other comprehensive income for the year, net of tax</b>	(26,953)	8,994
<b>Total comprehensive income for the year</b>	157,765	172,347
Loss attributable to non-controlling interests	822	---
<b>Total comprehensive income for the year attributable to members of the closed group</b>	158,587	172,347
<b>Summary of movements in consolidated retained profits</b>		
<b>Retained profits at the beginning of the financial year</b>	452,178	404,612
Profit for the year	185,540	163,353
Dividends paid	(90,878)	(115,787)
<b>Retained profits at the end of the financial year</b>	546,840	452,178

**Note 37. Deed of cross guarantee (continued)**

**(b) Balance sheet**

Set out below is a consolidated balance sheet as at 30 June 2010 and 30 June 2009 of the Closed Group consisting of the entities as named above at each point in time.

	<b>2010</b> <b>\$'000</b>	2009 \$'000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	108,404	233,607
Trade and other receivables	174,131	196,589
Inventories	99,179	111,698
Other	12,516	6,609
<b>Total current assets</b>	<b>394,230</b>	<b>548,503</b>
<b>Non-current assets</b>		
Receivables	297,963	111,239
Other financial assets	539,276	453,140
Property, plant and equipment	56,131	60,240
Intangible assets	187,687	182,494
Deferred tax assets	17,623	15,288
Other	2,251	2,907
<b>Total non-current assets</b>	<b>1,100,931</b>	<b>825,308</b>
<b>Total assets</b>	<b>1,495,161</b>	<b>1,373,811</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	109,931	124,232
Borrowings	1,294	1,549
Current tax liabilities	11,143	---
Provisions	5,238	8,218
<b>Total current liabilities</b>	<b>127,606</b>	<b>133,999</b>
<b>Non-current liabilities</b>		
Borrowings	162,573	122,091
Deferred tax liabilities	9,635	4,465
Provisions	2,806	2,541
Other	11,361	1,637
<b>Total non-current liabilities</b>	<b>186,375</b>	<b>130,734</b>
<b>Total liabilities</b>	<b>313,981</b>	<b>264,733</b>
<b>Net assets</b>	<b>1,181,180</b>	<b>1,109,078</b>
<b>EQUITY</b>		
Contributed equity	671,761	659,012
Reserves	(38,241)	(2,112)
Retained profits	546,840	452,178
Capital and reserves attributable to members of the closed group	1,180,360	1,109,078
Non-controlling interests	820	---
<b>Total equity</b>	<b>1,181,180</b>	<b>1,109,078</b>

**Note 38. Events occurring after the balance sheet date**

On 30 June 2010, the Group announced that it had entered into a definitive acquisition agreement with West 49 Inc, a leading Canadian speciality retailer of apparel, footwear, accessories and equipment related to the youth action sports lifestyle. The operating results and assets and liabilities of the business will be consolidated from the time all conditions required for contractual completion have been satisfied, therefore the financial effects of the transaction have not been brought to account at 30 June 2010. It is anticipated the acquisition will be completed by the end of August 2010, subject to the approval of not less than two-thirds of the votes cast by West 49 securityholders at a special meeting to be held on 24 August 2010.

The purchase price represents an enterprise value of C\$99.0 million (A\$110.4 million) based on a fully diluted equity value of approximately C\$90.2 million (A\$100.6 million) and net debt of C\$8.8 million (A\$9.8 million) as of 30 April 2010. The transaction will be funded from the Group's existing debt facilities.

On 12 July 2010, the Group announced the acquisition of RVCA, a progressive art and design-driven brand. The conditions for contractual completion were satisfied on 21 July 2010 and therefore the financial effects of the transaction have not been brought to account at 30 June 2010.

On 4 August 2010, the Group renegotiated its Syndicated Revolving Multi-Currency Facility which included:

- an increase in the total facility balance from US\$483.5 million to US\$790.0 million to be split equally between the two tranches under the facility;
- an extension to 1 July 2013 of the three year tranche of the facility, to remain a three year facility; and
- an extension to 1 July 2014 of the three year tranche of the facility, to become a four year facility.

On 20 August 2010, the Group announced that it had reached conditional agreement to acquire the 36-door Rush Surf retail chain in Australia. It is anticipated that the purchase will complete in October 2010 and therefore the financial effects of the transaction have not been brought to account at 30 June 2010.

**Note 39. Reconciliation of profit for the year to net cash inflow from operating activities**

	Consolidated	
	2010	2009
	\$'000	\$'000
Profit for the year, before non-controlling interest	145,166	152,839
Depreciation and amortisation	35,572	38,134
Impairment of retail store fixed assets	---	9,476
Share-based payment amortisation expense	5,325	319
Provisions: unwinding of discount	2,807	2,679
Net loss on sale of non-current assets	628	450
Net exchange differences	(1,401)	(2,415)
Change in operating assets and liabilities, excluding effects from business combinations;		
(Increase)/decrease in trade debtors	(46,174)	(34,368)
(Increase)/decrease in inventories	2,002	121
(Increase)/decrease in deferred tax assets	(6,015)	(11,697)
(Increase)/decrease in provision for income taxes receivable	9,370	(7,679)
(Increase)/decrease in other operating assets	21,709	(14,583)
Increase/(decrease) in trade creditors and other operating liabilities	6,468	22,815
Increase/(decrease) in provision for income taxes payable	9,142	15,909
Increase/(decrease) in deferred tax liabilities	4,356	1,777
Increase/(decrease) in other provisions	(1,708)	1,908
Net cash inflow from operating activities	<u>187,247</u>	<u>175,685</u>

**Note 40. Non-cash investing and financing activities**

	Consolidated	
	2010 \$'000	2009 \$'000
Acquisition of plant and equipment by means of finance lease	22	---
	22	---

Dividends satisfied by the issue of shares under the dividend reinvestment plan are shown in note 28.

**Note 41. Earnings per share**

	Consolidated	
	2010 Cents	2009 Cents
<b>(a) Basic earnings per share</b>		
Profit from continuing operations attributable to the ordinary equity holders of the Company	58.3	69.2
<b>(b) Diluted earnings per share</b>		
Profit from continuing operations attributable to the ordinary equity holders of the Company	57.8	68.7

**(c) Reconciliations of earnings used in calculating earnings per share**

	Consolidated	
	2010 \$'000	2009 \$'000
<i>Basic earnings per share</i>		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share from continuing operations	145,988	152,839
<i>Diluted earnings per share</i>		
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share from continuing operations	145,988	152,839

**(d) Weighted average number of shares used as the denominator**

	Consolidated	
	2010 Number	2009 Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	250,483,588	220,737,879
Adjustments for calculation of diluted earnings per share:		
Performance shares and conditional rights	2,063,782	1,719,746
Options	---	---
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>	252,547,370	222,457,625

**(e) Information concerning the classification of securities**

*Rights*

Rights granted to employees under the Billabong Executive Performance Share Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The rights have been excluded in the determination of basic earnings per share. Details relating to the rights are set out in note 42.

## Note 41. Earnings per share (continued)

### Options

Options granted to employees under the Billabong Performance and Retention Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 42.

The 1,782,183 options granted on 31 October 2008 and the 314,503 options granted on 24 November 2008 are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2010. These options could potentially dilute basic earnings per share in the future.

## Note 42. Share-based payments

### (a) 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 Group's three year EPS performance. The establishment of the EPSP was approved by shareholders at the 2004 Annual General Meeting.

Under the Plan the Group awards the following equity subject to the tax implications in the relevant jurisdiction.

Equity vehicle	Overview
Tier 1 Performance shares	<p>An employee awarded performance shares is not legally entitled to shares in the Company before the performance shares allocated under the Plan vest. However, the employee can vote and receive dividends in respect of shares allocated to them.</p> <p>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.</p> <p>For non-Australian employees, once their performance shares vest the shares are transferred to them (or sold on their behalf if they choose). However, if the performance shares do not vest, they are forfeited by the employee (for no consideration).</p>
Tier 1 Conditional rights	<p>An employee awarded conditional rights is not legally entitled to shares in the Company before the rights allocated under the Plan vest. Once vested, each right entitles the employee to receive one share in the Company.</p> <p>For French employees granted rights after 1 July 2005, 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.</p> <p>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).</p>

Note that for the purposes of the remuneration tables in this report, performance shares and conditional rights are collectively referred to as "rights".

Award, vesting and exercises under the Plan are made for no consideration.

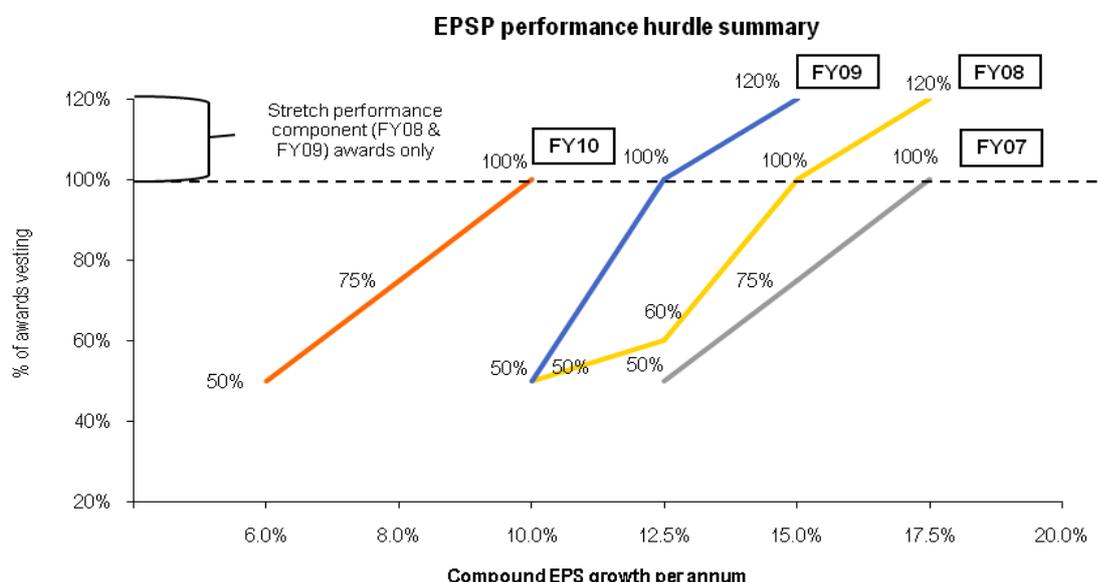
**Note 42. Share-based payments (continued)**

**(a) Billabong Executive Performance Share Plan (continued)**

Awards under the Plan vest on the third anniversary of grant only if the EPS performance hurdles are satisfied in the relevant performance period. The performance periods are summarised in the table below:

Grant	Performance period
2007/08	2006/07 (base year EPS) to 2009/10
2008/09	2007/08 (base year EPS) to 2010/11
2009/10	2008/09 (base year EPS) to 2011/12

The following chart summarises the EPS performance hurdles for outstanding unvested grants and the grants made in financial years ended 30 June 2007 and 30 June 2008 (which vested following the close of the financial years ended 30 June 2009 and 30 June 2010 respectively).



The Board selected EPS as the appropriate hurdle for the Plan as the Plan is intended to focus executives on the long-term (three year) earnings performance of the Group.

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 growth of the Group and the challenges of maintaining the high growth rate of earnings from a resulting higher EPS base, the targets, set at grant, differ for each of the 2006/07, 2007/08, 2008/09 and 2009/10 grants.

Details of the awards to Executive Directors, Derek O'Neill and Paul Naude in the 2010/11 financial year will be set out for shareholder approval in the Notice of Meeting and Explanatory Memorandum for the Company's 2010 Annual General Meeting.

At the end of the relevant performance period, in line with its charter, the Human Resource and Remuneration Committee consider the EPS performance of the Group on both a reported and constant currency basis and determines to what extent the awards should vest based on the above vesting conditions.

**EPSP - Tier 2**

Tier 2 participants comprise other senior management of the Group, including one of the key management personnel, President, Element Skateboards, Inc. The primary objective of the Tier 2 EPSP is retention. Under the Plan, 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.

## Note 42. Share-based payments (continued)

### (a) Billabong Executive Performance Share Plan (continued)

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 Plan 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 Plan 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 shares and conditional rights) awarded under the Plan:

Type of right	Grant date	Performance determination date	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
<b>Consolidated – 2010</b>							
Performance Shares	1 October 2006	30 June 2012	1,538,680	716,143	---	(427,204)	1,827,619
Conditional Rights	1 October 2006	30 June 2012	288,155	156,269	---	(79,610)	364,814
			<u>1,826,835</u>	<u>872,412</u>	<u>---</u>	<u>(506,814)</u>	<u>2,192,433</u>
<b>Consolidated – 2009</b>							
Performance Shares	1 December 2005	30 June 2011	1,348,249	588,029	(302,745)	(94,853)	1,538,680
Conditional Rights	1 December 2005	30 June 2011	245,347	112,643	(61,107)	(8,728)	288,155
			<u>1,593,596</u>	<u>700,672</u>	<u>(363,852)</u>	<u>(103,581)</u>	<u>1,826,835</u>

None of the rights awarded under the Plan vested or became exercisable during the year.

The total equity based rights that expired during the year ended 30 June 2010 and have not yet been granted under a new award was 23,318 (2009: 58,466). These expired equity based rights are held pending in the Plan until further awards are made.

#### *Fair value of rights granted*

The assessed fair value at grant date of rights granted under the Billabong Executive Performance Share Plan during the year ended 30 June 2010 was \$10.51 per right (2009: \$12.91). 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.

### (b) Billabong Executive Performance and Retention Plan ("EPRP")

The establishment of the Executive Performance and Retention Plan was approved at the Annual General Meeting ("AGM") of the Company held on 28 October 2008. The Executive Performance and Retention Plan 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 Plan, 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.

**Note 42. Share-based payments (continued)**

**(b) Billabong Executive Performance and Retention Plan (continued)**

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 p.a. 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 executive 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, this Plan 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
<b>Absolute TSR</b>	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.
<b>Relative TSR</b>	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.
<b>Banking</b>	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 Plan carry no dividend or voting rights.

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.

**Note 42. Share-based payments (continued)**

**(b) Billabong Executive Performance and Retention Plan (continued)**

Set out below are summaries of options granted under the Plan.

**Consolidated – 2010**

Grant date	Expiry date	Exercise price	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	Exercisable at end of year Number
31 October 2008	31 October 2015	\$11.08 *	1,782,183	---	---	---	1,782,183	---
24 November 2008	24 November 2015	\$10.80	314,503	---	---	---	314,503	---
			<u>2,096,686</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>2,096,686</u>	<u>---</u>
Weighted average exercise price			\$11.34	---	---	---	\$11.04	---

\* Shareholder approval was obtained at the 2009 AGM 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:

$$O' = O - \frac{E[P-(S+D)]}{N + 1}$$

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:

$$O' = 11.43 - \frac{1[9.80 - (7.50 + 0)]}{5.5 + 1}$$

$$O' = 11.08$$

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 tax 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 were not adjusted and the terms of these options were not amended.

**Note 42. Share-based payments (continued)**

**(b) Billabong Executive Performance and Retention Plan (continued)**

**Consolidated – 2009**

Grant date	Expiry date	Exercise price	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	Exercisable at end of year Number
31 October 2008	31 October 2015	\$11.43	---	1,782,183	---	---	1,782,183	---
24 November 2008	24 November 2015	\$10.80	---	314,503	---	---	314,503	---
			---	<b>2,096,686</b>	---	---	<b>2,096,686</b>	---
Weighted average exercise price			---	\$11.34	---	---	\$11.34	---

*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	
	31 October 2008	24 November 2008
The model inputs for options granted during the year ended 30 June 2009 included:		
(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.		

**(c) Expenses arising from share-based payment transactions**

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

	Consolidated	
	2010 \$'000	2009 \$'000
Operating costs of the Billabong Executive Performance Share Plan	20	19
Share-based payment expense	5,325	319
	<b>5,345</b>	<b>338</b>

**Note 43. Parent entity financial information**

**(a) Summary financial information**

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

	Parent entity	
	2010	2009
	\$'000	\$'000
<b>Balance sheet</b>		
Current assets	42,423	153,653
Total assets	1,182,390	1,061,358
Current liabilities	3,691	1,514
Total liabilities	377,229	314,858
<i>Shareholders' equity</i>		
Issued capital	671,761	659,012
Reserves		
Option reserve	18,202	12,877
Cash flow hedge reserve	---	(796)
Retained earnings	115,198	75,407
	805,161	746,500
<b>Profit or loss for the year</b>	130,669	117,873
<b>Total comprehensive income</b>	130,669	117,077

**(b) Contingent liabilities of the parent entity**

The parent entity did not have any contingent liabilities as at 30 June 2010 or 30 June 2009.

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

As at 30 June 2010, 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 37. No deficiencies of assets exist in any of the companies described in note 37.

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## Directors' declaration : :

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In the Directors' opinion:

- (a) the financial statements and notes set out on pages 39 to 118 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 Company's and consolidated entity's financial position as at 30 June 2010 and of their 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 37 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 37.

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.



Ted Kunkel  
Chairman

Gold Coast  
20 August 2010

PricewaterhouseCoopers  
ABN 52 780 433 757

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## 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 balance sheet as at 30 June 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Billabong Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1(a), 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. These Auditing 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 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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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

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

*Independence*

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

*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 2010 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*; and
- (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 14 to 27 of the directors' report for the year ended 30 June 2010. 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 2010, complies with section 300A of the *Corporations Act 2001*.

*Matters relating to the electronic presentation of the audited financial report*

This auditor's report relates to the financial report and remuneration report of Billabong International Limited (the Company) for the year ended 30 June 2010 included on Billabong International Limited's web site. The Company's directors are responsible for the integrity of Billabong International Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.



PricewaterhouseCoopers



Robert Hubbard  
Partner

Brisbane  
20 August 2010

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## Shareholder information ::

The shareholder information set out below was applicable as at 16 August 2010.

### 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	14,289	5,906,850	---	---
1,001 – 5,000	6,675	14,186,291	---	---
5,001 – 10,000	675	4,681,421	---	---
10,001 – 100,000	345	7,904,067	---	---
100,001 and over	64	220,443,923	5	2,096,686
	<b>22,048</b>	<b>253,122,552</b>	<b>5</b>	<b>2,096,686</b>

There were 998 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
HSBC Custody Nominees (Australia) Limited	43,256,012	17.09%
J P Morgan Nominees Australia Limited	39,070,171	15.44%
Gordon Merchant	37,770,098	14.92%
National Nominees Limited	32,984,219	13.03%
Citicorp Nominees Pty Limited	15,510,169	6.13%
Citicorp Nominees Pty Limited <CFS Wsle Geared Shr Fnd A/C>	11,072,343	4.37%
Jontex Pty Ltd	9,306,839	3.68%
ANZ Nominees Limited <Cash Income A/C>	4,419,936	1.75%
Colette Paul	2,973,289	1.17%
Cogent Nominees Pty Limited	2,714,798	1.07%
RBC Dexia Investor Services Australia Nominees Pty Limited	2,280,859	0.90%
Australian Reward Investment Alliance	1,928,657	0.76%
AMP Life Limited	1,341,148	0.53%
Citicorp Nominees Pty Limited <Cfsil Cwlt Aust Shs 1 A/C>	1,210,000	0.48%
Argo Investments Limited	1,180,528	0.47%
Paul Naude	1,105,988	0.44%
CPU Share Plans Pty Limited <BBG PSP Aus Control A/C>	1,056,056	0.42%
Derek O'Neill	970,962	0.38%
CRS Nominees Ltd <BBG EPS Int Control A/C>	939,378	0.37%
RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/C>	774,779	0.31%
	<b>211,866,229</b>	<b>83.70%</b>

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## Shareholder information ::

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### 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 of 28 October 2008:

Class – BBGAI	1,782,183	4
Class – BBGAK	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	Derek O'Neill	629,007
	Paul Naude	524,170
Class – BBGAK	Franco Fogliato	314,503

### Substantial Holders

As at 16 August 2010 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**

Gordon Stanley Merchant & Gordon Merchant No. 2 Pty Ltd	33,013,703	15.95%
Commonwealth Bank of Australia	20,856,900	8.25%
The Capital Group Companies Inc	16,663,415	6.58%
Concord Capital Ltd	14,847,380	6.09%
Maple-Brown Abbott Limited	12,816,606	5.06%

### 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

Shareholders with queries about their shareholdings should contact the Company's Share Registry as follows:

Computershare Investor Services Pty Ltd  
GPO Box 523  
BRISBANE QLD 4001

Telephone Australia: 1 300 552 270  
Telephone International: (+61 3) 9415 4000  
Fax: (+61 7) 3237 2152  
Email: web.queries@computershare.com.au

### Change of Address

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

**Dividends**

Dividend payments, where possible, may be paid directly to a nominated financial institution in Australia, New Zealand, United Kingdom or United States. Payments are electronically credited on the dividend payment date and confirmed by payment advices mailed directly to the shareholder's registered address. A form for this purpose is available from Computershare Investor Services Pty Ltd. Billabong International Limited also pays dividends by local currency cheque to shareholders who maintain a registered address in the following jurisdictions:

Hong Kong - \$HK, Japan - Yen, Europe - Euro, United States - \$US

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

**Annual Report**

Due to recent legislation changes the Company has elected to distribute Annual Reports by making them available on the website. Hard copies of the Annual Reports will only be sent to shareholders requesting one.

**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.

**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.

**Become an Online Shareholder**

Billabong International Limited offers shareholders an electronic service that enables them to be kept up-to-date with significant Company announcements as they happen. By subscribing for this service, shareholders can elect not to receive a printed annual report and to view the annual report online in the future. Shareholders can also access their current shareholding details and update many of these details online.

To register, shareholders should visit the share registry at [www.computershare.com/easyupdate/bbg](http://www.computershare.com/easyupdate/bbg) and enter your personal securityholder information (eg Holder Identification Number (HIN) or Securityholder Reference Number (SRN)) and postcode, then click on 'Submit'.

After the shareholder has entered their email address and selected which publications they wish to receive via email, an email will be sent to the shareholder for confirmation purposes. When received, the shareholder should simply click 'Reply' to confirm their details, then 'Send'.

Shareholders can also visit the Company's website at [www.billabongbiz.com](http://www.billabongbiz.com), where they can view:

- Annual and half-year reports
- Stock Exchange announcements
- Billabong's share price information
- General shareholder information



## GROUP OPERATING *centres*

### AUSTRALIA

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ACN 085 950 803  
Head Office & Queensland Office  
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FAX: + 55 11 3618 8636

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FAX: +1 514 336 1753

### CHILE

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Quilicura Santiago 872-0019 CHILE  
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FAX: + 56 2 219 3753

### FRANCE

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### THAILAND

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### USA

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