Billabong International Limited

ABN 17 084 923 946

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: : INTERIM FINANCIAL REPORT 31 DECEMBER 2012

This interim financial report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2012 and any public announcements made by Billabong International Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

Billabong International Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:
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Corporate website: www.billabongbiz.com

APPENDIX 4D
Half-yearly Report

Billabong International Limited
ABN 17 084 923 946

Extracts from this report for announcement to the market.

	Half-year		Change	
	2012 $'000	2011 $'000	$'000	%
Total revenue from ordinary activities	702,318	849,834	(147,516)	(17.4%)
(Loss)/profit from ordinary activities after tax attributable to members	(536,642)	16,097	(552,739)	(3,433.8%)
Net (loss)/profit for the period attributable to members	(536,642)	16,097	(552,739)	(3,433.8%)

Dividends	Amount per Security	Franked amount per security
Interim dividend	0.0 cents	0.0 cents
Previous corresponding period interim dividend	3.0 cents	0.0 cents

The Board has not declared an interim ordinary dividend for the half-year ended 31 December 2012.

The Dividend Reinvestment Plan (DRP) remains suspended.

Explanation of Results

Please refer to the Review of Operations within the Directors' Report for an explanation of the results.

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Billabong International Limited (the Company) and the entities it controlled at the end of, or during, the half-year ended 31 December 2012.

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

L. Inman
A.G. Froggatt
G.S. Merchant
P. Naude*
C. Paull
S. Pitkin

I. Pollard was appointed as a Director and Chairman on 24 October 2012 and continues in office at the date of this report.

H. Mowlem was appointed as a Director on 24 October 2012 and continues in office at the date of this report.

E.T. Kunkel was a Director and Chairman from the beginning of the financial year until his resignation as Chairman on 24 October 2012 and resignation as Director on 16 November 2012.

F.A. McDonald was a Director from the beginning of the financial year until his resignation on 24 October 2012.

* Leave of absence from 19 November 2012 to the date of this report.

Review of operations
A summary of consolidated revenues and results for the half-year by significant geographical segment is set out below:

Segment	**Segment revenues**		**Segment EBITDAI ***	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000
Australasia	275,930	295,908	13,885	26,960
Americas	320,091	400,794	12,534	30,139
Europe	103,601	150,474	(799)	15,643
Third party royalties	1,435	1,311	1,435	1,311
Share of net profit after-tax of associate	---	---	1,142	---
Discontinued operation – adjustment to onerous supply agreement	---	---	(3,482)	---
	701,057	848,487	24,715	74,053
Less: Depreciation and amortisation			(20,793)	(22,058)
Impairment charges			(534,455)	(14,986)
Net interest expense			(6,907)	(14,207)
(Loss)/profit before income tax expense			(537,440)	22,802
Income tax benefit/(expense)			481	(6,827)
(Loss)/profit after income tax expense			(536,959)	15,975
Loss attributable to non-controlling interest			317	122
(Loss)/profit attributable to the members of Billabong International Limited			(536,642)	16,097

Review of operations (continued)

Segment Constant Currency **	**Segment revenues**		**Segment EBITDAI ***	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000
Australasia	275,930	293,158	13,885	27,043
Americas	320,091	394,185	12,534	29,108
Europe	103,601	139,611	(799)	14,388
Third party royalties	1,435	1,311	1,435	1,311
Share of net profit after-tax of associate	---	---	1,142	---
Discontinued operation – adjustment to onerous supply agreement	---	---	(3,482)	---
	701,057	828,265	24,715	71,850
Less: Depreciation and amortisation			(20,793)	(21,492)
Impairment charges			(534,455)	(13,772)
Net interest expense			(6,907)	(14,029)
(Loss)/profit before income tax expense			(537,440)	22,557
Income tax benefit/(expense)			481	(6,563)
(Loss)/profit after income tax expense			(536,959)	15,994
Loss attributable to non-controlling interest			317	122
(Loss)/profit attributable to the members of Billabong International Limited			(536,642)	16,116

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

** Due to a significant portion of the Group's operations being outside of Australia, the Group is exposed to currency exchange rate translation risk i.e. the risk that the Group's offshore earnings and assets fluctuate when reported in Australian Dollars. The Group's segment information for the prior period has therefore also been presented in a constant currency basis (i.e. using the current period monthly average exchange rates to convert the prior period foreign earnings) to remove the impact of foreign exchange movements from the Group's performance against the prior period comparative. The constant currency comparatives are a non-IFRS measurement.

Given the impact of the Group's transformation strategy announced to the market on 27 August 2012 and the impact the difficult global macro trading conditions have had on results this half-year, the Group's results have been presented on an adjusted basis to exclude the significant items to enable a more representative comparison to the prior year as detailed below.

Significant cost items include costs associated with the transformation strategy (consulting costs, inventory write downs and redundancies) and other significant costs comprising costs associated with takeover bid defence, adjustments to derivative liabilities, doubtful debts and impairment of brands, goodwill and investment (collectively significant items). These significant items have been identified on a consistent basis to that used in the Annual Report for the year ended 30 June 2012 to enable comparability. Refer to note 4 of the half-year financial statements for more information in relation to these items.

Review of operations (continued)

Adjusted Net Profit After Tax Excluding Significant Items

Adjusted EBITDAI by Segment:	**2012 $'000**	2011 $'000	2011 Excluding discontinued operation $'000
Australasia	31,789	30,274	24,491
Americas	20,464	34,035	14,805
Europe	2,389	17,207	11,474
Third party royalties	1,435	1,311	1,311
Share of net profit after-tax of associate	1,142	---	---
Adjusted EBITDAI	57,219	82,827	52,081
Less: Depreciation and amortisation	(20,793)	(22,058)	
Net interest expense	(6,907)	(14,207)	
Adjusted net profit before income tax expense	29,519	46,562	
Adjusted income tax expense	(10,620)	(8,428)	
Adjusted net profit after income tax expense	18,899	38,134	
Loss attributable to non-controlling interest	317	122	
Adjusted net profit attributable to members of Billabong International Limited	19,216	38,256	

Adjusted EBITDAI excludes significant items of $32.5 million and $8.8 million for the half-years ended 31 December 2012 and 31 December 2011 respectively. Refer to note 4 of the half-year financial statements for detailed disclosure in relation to these items. Adjusted net profit after tax further excludes impairment losses of $534.5 million and $15.0 million for the half-years ended 31 December 2012 and 31 December 2011 respectively. Adjusted EBITDAI and adjusted net profit after tax are non-IFRS measurements.

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

Consolidated Result

Net Loss After Tax for the half-year ended 31 December 2012 was $536.6 million compared to a Net Profit After Tax of $16.1 million in the prior corresponding period (pcp). This result was impacted by the abovementioned significant items and the partial sale of Nixon on 16 April 2012. Excluding the after tax impact of the significant items in both years, Adjusted Profit attributable to members of Billabong International Limited for the half-year ended 31 December 2012 was $19.2 million, a decrease of 49.8% in reported terms (a decrease of 48.1% in constant currency terms) compared to the pcp.

Group performance excluding significant items and excluding Nixon in the pcp

Group sales to external customers of $699.6 million, excluding third party royalties, represents a 8.1% decrease on the pcp primarily as a result of weak trading conditions in Europe and the impact of the retail store closure program previously announced by the Company.

In constant currency terms, sales revenue in the Americas decreased 5.3%, Europe decreased 17.3% and Australasia decreased 1.6% over the pcp.

Consolidated gross margins were 52.3% (52.7% in the pcp).

Adjusted EBITDAI of $57.2 million for the period compares to $52.1 million for the pcp. This is an increase of 9.9% (an increase of 12.9% in constant currency terms). The consolidated Adjusted EBITDAI margin of 8.2% increased by 1.4% points compared to that of the pcp of 6.8%.

Review of operations (continued)

The higher Adjusted EBITDAI was achieved notwithstanding a reduction in sales and was driven, in particular, by factors including:

- Significant cost reductions including the store closure program and overhead reductions previously announced
- In Australasia, EBITDAI increased in the period 29.3% in constant currency terms due to cost reductions and the impact of the retail store closure program previously announced by the Company
- In Europe, sovereign debt issues continued to have a significant adverse impact on consumer confidence and demand, especially in southern European territories, leading to lower than expected sales and gross margins. In Europe EBITDAI was down 77.6% in constant currency terms, whilst overall costs reduced 10.1% (excluding global overhead costs allocation) this was not enough to offset the reduction in sales
- In North America, EBITDAI increased in the period 45.0% in constant currency terms mainly due to cost reductions and despite company owned retail performance in Canada being below expectations
- Global costs were $4.1 million higher than the pcp primarily as a result of foreign exchange losses.

Group performance including significant items and including Nixon in the pcp

Group sales to external customers of $699.6 million, excluding third party royalties, represents a 17.4% decrease on the pcp primarily as a result of the sale of Nixon, weak trading conditions in Europe and the impact of the retail store closure program previously announced by the Company.

At a segment level, in constant currency terms, sales revenue in the Americas decreased 18.8%, Europe decreased 25.8% and Australasia decreased 5.9% over the pcp, with all these comparisons reflecting the sale of Nixon.

EBITDAI of $24.7 million for the period compares to $74.1 million for the pcp. This is a decrease of 66.6% as the Nixon EBITDA was included in the pcp and the current period includes $32.5 million of significant items. In addition to the significant items and Nixon differences the comparison is impacted by the trading matters noted above.

Depreciation and Amortisation Expense

Depreciation and amortisation expense decreased 5.7% in reported terms compared to the pcp primarily due to a reduction in property, plant and equipment compared to the pcp as a result of the retail store closure program and the partial sale of Nixon.

Impairment Charge Expense

As a result of the impairment review of intangible assets, brand and/or goodwill in several Cash Generating Units have been written down to their recoverable amount, being either their value in use or fair value less costs to sell. For the half-year ended 31 December 2012, this resulted in an impairment charge amounting to $427.8 million.

In relation to the investment in Nixon Investments LLC, based on the current forecasts of the business and having regard to the differential capital structure referred to in note 7 of the half-year financial statements, the Group has written down its investment in Nixon Investments LLC by $106.6 million to $29.1 million being the expected recoverable amount.

Net Interest Expense

The decrease in net interest expense of 51.4% in reported terms (50.8% in constant currency terms) was driven primarily by the reduction in outstanding borrowings following the receipt of proceeds from the partial sale of Nixon and the accelerated pro-rata non-renounceable entitlement offer announced in June 2012 offset by the payment of the deferred consideration for the original acquisition of Nixon, Swell, DaKine, Sector 9 and Quiet Flight and increasing the Group's ownership in Surfstitch Australia from 20% to 51%.

Income Tax Expense

The income tax benefit for the half-year ended 31 December 2012 was $0.5 million (2011 income tax expense: $6.8 million). Adjusting for the significant items, the effective tax rate for the Group is 36.0% (2011: 18.1%). The adjusted higher effective tax rate for the half-year ended 31 December 2012 reflects the Group's changing segment mix and the non-recognition of tax losses in Canada and Europe.

Consolidated Balance Sheet, Cash Flow Items and Capital Expenditure

Working capital at $263.3 million represents 19.0% as a percentage of the prior twelve months' sales (excluding Nixon wholesale external sales) stated at half-year end exchange rates, being 6.4% lower compared to the pcp of 25.4%.

Cash inflow from operating activities decreased to $29.0 million, being 66.7% lower compared to $87.0 million in the pcp, principally reflecting the impact of the partial sale of Nixon and costs associated with the closure of underperforming retail.

Review of operations (continued)

Net cash receipts from customers of $36.4 million were 66.6% lower compared to $108.7 million in the pcp representing 63.6% of Adjusted EBITDAI compared to 131.3% for the pcp.

Cash outflow from investing activities of $85.8 million was in accordance with expectations and includes deferred consideration payments for Swell, DaKine, Sector 9 and Quiet Flight and increasing the Group's ownership in Surfstitch Australia from 20% to 51% and investment in owned retail globally.

Net debt decreased 71.0% to $152.2 million over the pcp which principally reflects the receipt of the proceeds from the partial sale of Nixon and the accelerated pro-rata non-renounceable entitlement offer offset by the payment of the deferred consideration for the original acquisition of Nixon, Swell, DaKine, Sector 9 and Quiet Flight, increasing the Group's ownership in Surfstitch Australia from 20% to 51% and working capital requirements.

After payment of these deferred consideration amounts there remains outstanding $11.2 million in the next 12 months and $44.2 million beyond 12 months.

Significant changes in the state of affairs

On 29 June 2012 the Company invited eligible retail shareholders to participate in an accelerated non-renounceable pro-rata entitlement offer to subscribe for 6 new ordinary shares for every 7 existing ordinary shares at an issue price of $1.02 per new share with such shares to be issued on, and rank for dividends after 27 July 2012. As a result, 68.0 million new shares were issued, resulting in gross cash proceeds of $69.3 million. Details of the changes in contributed equity are disclosed in note 10 to the half-year financial accounts.

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

Matters subsequent to the end of the half-year

On 14 December 2012, the Board received an indicative non-binding and conditional proposal from a consortium comprising Paul Naude and Sycamore Partners Management (Sycamore) to acquire all the shares in the Company for $1.10 cash per share by way of a scheme of arrangement. On 14 January 2013, the Board received an indicative non-binding and conditional proposal from a consortium comprising Altamont Capital and VF Corporation (Altamont/VF) to acquire all the shares in the company for $1.10 cash per share.

At the date of this report, discussions between Sycamore and the Board and Altamont/VF and the Board are continuing and the proposals are subject to due diligence. There is no guarantee that the following the due diligence process that binding bids from either bidder will be forthcoming or that the Board will recommend an offer at the current proposed offer price.

As a result of the impairment charges in the current half-year, as at 31 December 2012, the Group would have breached its Consolidated Shareholders' Funds covenant with respect to its major banking facilities. Subsequent to 31 December 2012, the Group's financiers agreed to an amendment to this covenant with effect from 31 December 2012 and thereafter.

Other than those items mentioned above, there has not arisen in the interval between the end of the half-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

Since the December trading guidance of full year EBITDA (including equity accounted share of Nixon NPAT but excluding significant items) of $85 million to $92 million, the Group has continued to face difficult trading conditions in Europe and the performance of Nixon has not met expectations. Performance of the rest of the Group remains broadly in line with expectations. The Board now expects full year underlying EBITDA (excluding significant items) to be in the range of $74 million to $85 million in constant currency terms.

Auditor's independence declaration

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

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report and financial report. Amounts in the Directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

The non-IFRS financial information contained within this Directors' Report has not been reviewed in accordance with Australian Auditing Standards.

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

Ian Pollard
Chairman
Gold Coast, 22 February 2013

Auditor's independence declaration

As lead auditor for the review of Billabong International Limited for the half-year ended 31 December 2012, I declare that, to the best of my knowledge and belief, there have been:

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

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

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

Steven Bosiljevac
Partner
PricewaterhouseCoopers

Brisbane, 22 February 2013

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	Notes	Half-year **2012** **$'000**	Half-year 2011 $'000
Revenue from continuing operations		702,318	764,271
Cost of goods sold		(335,421)	(360,178)
Other income		965	3,533
Selling, general and administrative expenses		(267,718)	(296,563)
Other expenses		(623,701)	(95,792)
Finance costs		(11,543)	(19,151)
Share of net profit after-tax of associate accounted for using the equity method		1,142	---
Loss before income tax		(533,958)	(3,880)
Income tax (expense)/benefit		(564)	1,460
Loss from continuing operations		(534,522)	(2,420)
(Loss)/profit from discontinued operation after income tax	6	(2,437)	18,395
(Loss)/profit for the half-year		(536,959)	15,975
Loss attributable to non-controlling interests		317	122
(Loss)/profit for the half-year attributable to the members of Billabong International Limited		(536,642)	16,097
Earnings per share from continuing operations attributable to the ordinary equity holders of the Company		Cents	Cents
Basic earnings per share		(108.3)	(0.7)
Diluted earnings per share		(108.3)	(0.7)
Earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company		Cents	Cents
Basic earnings per share		(108.8)	5.1
Diluted earnings per share		(108.8)	5.0

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

Statement of comprehensive income
For the half-year ended 31 December 2012 : :

	Half-year **2012** **$'000**	Half-year 2011 $'000
(Loss)/profit for the half-year	(536,959)	15,975
Other comprehensive income		
Changes in the fair value of cash flow hedges, net of tax	(1,373)	3,495
Exchange differences on translation of foreign operations	(16,099)	(31,210)
Net investment hedge, net of tax	15,003	8,554
Other comprehensive expense for the half-year, net of tax	(2,469)	(19,161)
Total comprehensive expense for the half-year	(539,428)	(3,186)
Loss attributable to non-controlling interests	317	122
Total comprehensive expense for the half-year attributable to members of Billabong International Limited	(539,111)	(3,064)
Total comprehensive expense for the half-year attributable to members of Billabong International Limited arises from:		
Continuing operations	(536,674)	(21,459)
Discontinued operation	(2,437)	18,395
	(539,111)	(3,064)

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

Balance sheet
As at 31 December 2012 : :

	31 December **2012** **$'000**	30 June 2012 $'000	31 December 2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents	134,167	317,263	191,334
Trade and other receivables	192,070	245,035	302,491
Inventories	288,840	293,201	376,992
Current tax receivables	16,802	18,622	16,703
Other	20,827	24,800	27,373
Total current assets	652,706	898,921	914,893
Non-current assets			
Receivables	9,334	11,560	15,403
Investment accounted for using the equity method	29,089	134,579	---
Property, plant and equipment	153,123	160,153	187,886
Intangible assets	351,624	795,900	1,276,558
Deferred tax assets	86,634	71,098	37,015
Other	9,136	7,658	6,717
Total non-current assets	638,940	1,180,948	1,523,579
Total assets	1,291,646	2,079,869	2,438,472
LIABILITIES			
Current liabilities			
Trade and other payables	230,109	320,225	375,535
Borrowings	279,521	229,088	15,471
Current tax liabilities	6,486	2,953	2,199
Provisions	36,401	59,177	24,041
Total current liabilities	552,517	611,443	417,246
Non-current liabilities			
Borrowings	6,819	249,069	701,500
Deferred tax liabilities	50,430	44,181	46,780
Provisions and other payables	64,643	80,346	25,599
Deferred payment	44,208	67,565	86,147
Total non-current liabilities	166,100	441,161	860,026
Total liabilities	718,617	1,052,604	1,277,272
Net assets	573,029	1,027,265	1,161,200
EQUITY			
Contributed equity	910,836	843,268	682,909
Treasury shares	(23,951)	(27,935)	(27,935)
Option reserve	5,554	9,375	7,030
Other reserves	(128,115)	(143,107)	(146,769)
Retained (losses)/profits	(189,672)	346,970	646,361
Capital and reserves attributable to members of Billabong International Limited	574,652	1,028,571	1,161,596
Non-controlling interests	(1,623)	(1,306)	(396)
Total equity	573,029	1,027,265	1,161,200

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

	Notes	Attributable to members of Billabong International Limited				Non-controlling interests $'000	Total $'000
		Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000		
Balance at 1 July 2011		678,949	(148,774)	663,289	1,193,464	3,375	1,196,839
Profit for the half-year		---	---	16,097	16,097	(122)	15,975
Other comprehensive income		---	(19,161)	---	(19,161)	---	(19,161)
Total comprehensive income for the half-year		---	(19,161)	16,097	(3,064)	(122)	(3,186)
Transactions with equity holders in their capacity as equity holders:							
Transactions with non-controlling interests	10	3,960	(311)	---	3,649	(3,649)	---
Dividends paid	11	---	---	(33,025)	(33,025)	---	(33,025)
Treasury shares purchased by employee share plan trusts	10	---	(2,665)	---	(2,665)	---	(2,665)
Option reserve in respect of employee share plan		---	3,237	---	3,237	---	3,237
		3,960	261	(33,025)	(28,804)	(3,649)	(32,453)
Balance at 31 December 2011		682,909	(167,674)	646,361	1,161,596	(396)	1,161,200
Balance at 1 July 2012		843,268	(161,667)	346,970	1,028,571	(1,306)	1,027,265
Loss for the half-year		---	---	(536,642)	(536,642)	(317)	(536,959)
Other comprehensive income		---	(2,469)	---	(2,469)	---	(2,469)
Total comprehensive income for the half-year		---	(2,469)	(536,642)	(539,111)	(317)	(539,428)
Transactions with equity holders in their capacity as equity holders:							
Rights issue, net of transaction costs	10	67,568	---	---	67,568	---	67,568
Treasury shares purchased by employee share plan trusts	10	---	(1,827)	---	(1,827)	---	(1,827)
Option reserve in respect of employee share plan		---	1,990	---	1,990	---	1,990
Redemption option for non-controlling derivative		---	17,461	---	17,461	---	17,461
		67,568	17,624	---	85,192	---	85,192
Balance at 31 December 2012		910,836	(146,512)	(189,672)	574,652	(1,623)	573,029

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

	Half-year 2012 $'000	Half-year 2011 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	795,861	961,380
Payments to suppliers and employees (inclusive of GST)	(759,495)	(852,670)
	36,366	108,710
Interest received	783	896
Other revenue	2,333	1,995
Finance costs	(12,829)	(15,575)
Income taxes received/(paid)	2,370	(8,989)
Net cash inflow from operating activities	29,023	87,037
Cash flows from investing activities		
Payments for purchase of subsidiaries and businesses, net of cash acquired	(67,807)	(58,531)
Payments for property, plant and equipment	(12,304)	(26,787)
Payments for intangible assets	(5,781)	(5,158)
Proceeds from sale of property, plant and equipment	48	462
Net cash outflow from investing activities	(85,844)	(90,014)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities	66,811	---
Payments for treasury shares held by employee share plan trusts	(1,827)	(2,665)
Proceeds from borrowings	449,445	424,999
Repayment of borrowings	(638,892)	(341,809)
Dividends paid	---	(33,025)
Net cash (outflow)/inflow from financing activities	(124,463)	47,500
Net (decrease)/increase in cash and cash equivalents	(181,284)	44,523
Cash and cash equivalents at the beginning of the half-year	315,664	144,425
Effects of exchange rate changes on cash and cash equivalents	(1,071)	394
Cash and cash equivalents at the end of the half-year	133,309	189,342
(a) Reconciliation to cash at the end of the half-year		
Balance per consolidated balance sheet	134,167	191,334
Bank overdrafts	(858)	(1,992)
Balance per consolidated cash flow statement	133,309	189,342

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

Note 1. Basis of preparation for the half-year report

This interim financial report for the half-year reporting period ended 31 December 2012 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2012 and any public announcements made by Billabong International Limited (the Company) during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.* The financial report covers the consolidated entity consisting of Billabong International Limited and its subsidiaries (the Group or consolidated entity).

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Debt covenant
As a result of the impairment charges in the current half-year, as at 31 December 2012, the Group would have breached its Consolidated Shareholders' Funds covenant with respect to its major banking facilities.

Subsequent to 31 December 2012, the Group's financiers agreed to an amendment to this covenant with effect from 31 December 2012 and thereafter.

As a result of the amendment not being in place at 31 December 2012, the Group has classified $269.8 million of borrowings as current liabilities on the balance sheet notwithstanding that at the date of this report they are not due to be repaid within twelve months.

Impact of standards issued but not yet applied by the entity
In December 2009, the AASB issued AASB 9 *Financial Instruments* which addresses the classification, measurement and derecognition of financial assets and is unlikely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2015 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.

AASB 13 Fair value measurement and *AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013).* AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

Note 2. 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 most significant estimates and assumptions made in the interim financial statements that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below. Other critical accounting estimates and judgements are disclosed in the Annual Report for the year ended 30 June 2012.

Estimated impairment of goodwill and indefinite life intangibles
The Group tests annually, or when indicators of impairment arise, whether goodwill and indefinite life intangibles have suffered any impairment and if any intangibles cease to have an indefinite life, in accordance with the accounting policy stated in note 1(i) of the Annual Report for the year ended 30 June 2012. The recoverable amounts of the 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 8.

Note 2. Critical accounting estimates and judgements (continued)

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 comparable transactions and observable trading multiples. Assumptions used in impairment testing are detailed in note 8.

Estimated impairment of equity accounted investments
The Group tests when indicators of impairment arise, whether equity accounted investments have suffered any impairment in accordance with the accounting policy stated in note 1(i) of the Annual Report for the year ended 30 June 2012. Impairment tests are performed based on the expected recoverable amount of the asset under a future sale of the Group's share in the investment. The value of the investment at this point is derived from management's estimate of EBITDA for the relevant period multiplied by a transaction multiple on the sale of the business at that time and discounted to its present value. Assumptions used in impairment testing are detailed in note 7.

Note 3. 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, South Korea and Hong Kong.

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

Europe
This segment includes Austria, Belgium, the Czech Republic, England, France, Germany, Italy, Luxembourg, the Netherlands and Spain.

Rest of the world
This segment relates to royalty receipts from third party operations and the share of net profit after-tax of associate.

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

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

Note 3. Segment information (continued)

(b) Segment information provided to the CEO
The segment information provided to the CEO for the reportable segments for the half-year ended 31 December is as follows:

Half-year 2012	Australasia $'000	Americas $'000	Europe $'000	Other* $'000	Rest of the World $'000	Total $'000
Total from continuing and discontinued operations						
Sales to external customers	275,930	320,091	103,601	---	---	699,622
Third party royalties	---	---	---	---	1,435	1,435
Total segment revenue	275,930	320,091	103,601	---	1,435	701,057
EBITDAI	13,885	12,534	(799)	(2,340)	1,435	24,715
Less: depreciation and amortisation						(20,793)
Less: impairment charges						(534,455)
Less: net interest expense						(6,907)
Loss before income tax						(537,440)
Segment assets	2,529,113	553,974	188,981	---	---	3,272,068
Elimination						(2,067,712)
Unallocated assets:						
Deferred tax						86,634
Derivative assets						656
Total assets						1,291,646
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	6,882	7,087	4,894	---	---	18,863

* Included in 'Other' segment EBITDAI for the half-year ended 31 December 2012 are the following items:

	2012 $'000
Share of net profit after-tax of associate accounted for using the equity method	1,142
Discontinued operation – adjustment to onerous supply agreement (note 6)	(3,482)
	(2,340)

Note 3. Segment information (continued)

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

The table below shows the total of results from continuing and discontinued operations. For a breakdown of continuing and discontinued operations, refer to (c) below.

Half–year 2011	**Australasia $'000**	**Americas $'000**	**Europe $'000**	**Rest of the world $'000**	**Total $'000**
Total from continuing and discontinued operations					
Sales to external customers	295,908	400,794	150,474	---	847,176
Third party royalties	---	---	---	1,311	1,311
Total segment revenue	295,908	400,794	150,474	1,311	848,487
EBITDAI	26,960	30,139	15,643	1,311	74,053
Less: depreciation and amortisation					(22,058)
Less: impairment charge					(14,986)
Less: net interest expense					(14,207)
Profit before income tax					22,802
Segment assets	1,949,977	1,176,530	249,581	---	3,376,088
Elimination					(977,758)
Unallocated assets:					
Deferred tax					37,015
Derivative assets					3,127
Total assets					2,438,472
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	16,440	11,966	6,921	---	35,327

(c) Breakdown of segment results between continuing and discontinued operations

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

Half-year 2012	**Australasia $'000**	**Americas $'000**	**Europe $'000**	**Other* $'000**	**Rest of the World $'000**	**Total $'000**
From continuing operations						
Sales to external customers	275,930	320,091	103,601	---	---	699,622
Third party royalties	---	---	---	---	1,435	1,435
Total segment revenue	275,930	320,091	103,601	---	1,435	701,057
EBITDAI	13,885	12,534	(799)	1,142	1,435	28,197
Less: depreciation and amortisation						(20,793)
Less: impairment charges						(534,455)
Less: net interest expense						(6,907)
Loss before income tax						(533,958)

* Includes share of net profit after-tax of associate accounted for using the equity method.

Note 3. Segment information (continued)

(c) Breakdown of segment results between continuing and discontinued operations (continued)

Half-year 2012	**Australasia $'000**	**Americas $'000**	**Europe $'000**	**Other* $'000**	**Rest of the World $'000**	**Total $'000**
From discontinued operation						
Sales to external customers	---	---	---	---	---	---
Third party royalties	---	---	---	---	---	---
Total segment revenue	---	---	---	---	---	---
EBITDAI	---	---	---	(3,482)	---	(3,482)
Less: depreciation and amortisation						---
Less: impairment charges						---
Less: net interest expense						---
Loss before income tax (note 6)						(3,482)

* Adjustment to onerous supply agreement.

Half–year 2011	**Australasia $'000**	**Americas $'000**	**Europe $'000**	**Rest of the world $'000**	**Total $'000**
From continuing operations					
Sales to external customers	283,153	343,550	134,914	---	761,617
Third party royalties	---	---	---	1,311	1,311
Total segment revenue	283,153	343,550	134,914	1,311	762,928
EBITDAI	21,466	12,207	10,263	1,311	45,247
Less: depreciation and amortisation					(20,085)
Less: impairment charge					(14,986)
Less: net interest expense					(14,056)
Loss before income tax					(3,880)
From discontinued operation					
Sales to external customers	12,755	57,244	15,560	---	85,559
Third party royalties	---	---	---	---	---
Total segment revenue	12,755	57,244	15,560	---	85,559
EBITDAI	5,494	17,932	5,380	---	28,806
Less: depreciation and amortisation					(1,973)
Less: impairment charge					---
Less: net interest expense					(151)
Profit before income tax (note 6)					26,682

Note 4. Significant items

The following significant items impact loss before income tax:

From continuing operations:	**2012 $'000**	2011 $'000
Significant items included in cost of goods sold (note (a))		
Net realisable value shortfall expense on inventory realised	1,875	---
	1,875	---
Significant items included in selling, general and administrative expenses (note (b))		
Specific doubtful debts expense	3,066	3,701
Takeover bid defence costs	5,775	---
Transformation strategy costs	6,349	---
Surfstitch compensation and other expense	1,036	---
Restructuring costs	---	2,921
	16,226	6,622
Significant items included in other expenses (note (c))		
Loss from adjustment to contingent consideration	251	---
Fair value adjustment to derivative liabilities	10,670	---
Acquisition costs	---	212
Impairment of goodwill and brands (note 8)	427,824	14,986
Impairment of investment accounted for using the equity method (note 7)	106,631	---
	545,376	15,198
Total from continuing operations	563,477	21,820
From discontinued operation:		
Adjustment to onerous supply agreement provision (note 6)	3,482	---
Disposal costs	---	1,940
Total from discontinued operation	3,482	1,940
	566,959	23,760

(a) Significant items included in cost of goods sold

(i) Net realisable value shortfall expense on inventory realised
As a result of the strategic capital structure review by the Group a number of loss making or underperforming stores were identified and the Group has closed or intends to close these stores. As a result the inventory in these stores has been sold below cost in order to clear that inventory.

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

(i) Specific doubtful debts expense
As a result of the strategic capital structure review, in specific geographies the Group has discontinued working with a number of wholesale accounts as a result of either their current financial position and/or the decision not to supply product under specific arrangements. As the discontinuation of supply to these accounts may result in recoverability issues arising in the current outstanding amounts due to the Group, a provision was raised against these large outstanding accounts receivable balances.

(ii) Takeover bid defence costs
As a result of the various takeover proposals the Group has received during the half-year ended 31 December 2012, significant bid related costs have been incurred in responding to these proposals and facilitating due diligence.

Note 4. Significant items (continued)

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

(iii) Transformation strategy costs
As a result of the transformation strategy announced to the market in August 2012, significant consulting costs have been incurred during the half-year ended 31 December 2012 as work is undertaken to develop and implement the restructure of the Group.

(iv) Surfstitch compensation and other expense
Under the terms of the options to acquire the remaining shares that the Company does not already own in Surfstitch Australia and Surfstitch Europe, and in accordance with IFRS, the Company is required to recognise through the income statement any deemed compensation expense attached to those options in respect of key employees who continue in the business. This is a non-cash accounting item essentially relating to the acquisition of the remaining shares in these businesses. This will only become a cash item if and when the put and call options under the relevant agreements are exercised in future periods.

(v) Restructuring costs
During the prior year, the Group announced to the market and had begun a strategic capital structure review of the business. This review resulted in various restructuring costs being incurred in the half-year ended 31 December 2011.

(c) Significant items included in other expenses

(i) Adjustment to contingent consideration / derivative liabilities
In accordance with IFRS, adjustments to deferred consideration payable and adjustments to derivative liabilities held at fair value must be recorded through the income statement.

(ii) Impairment of goodwill and brands
Refer to note 8 for detailed disclosure surrounding the impairment of goodwill and brands during the half-year ended 31 December 2012.

As at 31 December 2011, the carrying value of assets in the South African CGU were tested for impairment based on fair value less costs to sell (FVLCTS) calculations. This resulted in an impairment charge of $15.0 million against goodwill being recognised and the carrying amount of the South African goodwill reducing to $17.1 million. As at 30 June 2012, this amount was fully written off due to the continued deterioration in trading conditions in the region.

(iii) Impairment of investment accounted for using the equity method
Refer to note 7 for detailed disclosure surrounding the impairment of investment accounted for using the equity method during the half-year ended 31 December 2012.

Note 5. Income tax expense

The income tax benefit for the half-year ended 31 December 2012 was $0.5 million (2011 income tax expense: $6.8 million). Adjusting for the significant items, the effective tax rate for the Group is 36.0% (2011: 18.1%). The adjusted higher effective tax rate for the half-year ended 31 December 2012 reflects the Group's changing segment mix and the non-recognition of tax losses in Canada and Europe.

Note 6. Discontinued operation

(i) Description
On 17 April 2012 the Group sold 51.5% of Nixon Investments LLC (Nixon) with 48.5% being purchased by Trilantic Capital Partners and 3% being purchased by Nixon management. The Group has retained a 48.5% interest in Nixon. The agreement was actioned on 16 April 2012 with effect from 17 April 2012 and Nixon has been reported in these financial statements as a discontinued operation.

Financial information relating to the discontinued operation for the half-years ended 31 December 2012 and 31 December 2011 is set out below.

(ii) Financial performance and cash flow information
The financial performance and cash flow information presented are for the half-year ended 31 December 2012 and the half-year ended 31 December 2011.

	2012 $'000	2011 $'000
Revenue	---	85,563
Expenses	(3,482)	(58,881)
(Loss)/profit before income tax	(3,482)	26,682
Income tax benefit / (expense)	1,045	(8,287)
(Loss)/profit after income tax from discontinued operation	(2,437)	18,395
(Loss)/profit from discontinued operation	(2,437)	18,395

	2012 $'000	2011 $'000
Net cash inflow from operating activities	---	15,487
Net cash outflow from investing activities	---	(2,071)
Net cash inflow from financing activities	---	1,406
Net increase in cash generated by Nixon	---	14,822

The expense recognised during the half-year ended 31 December 2012 relates to an adjustment to the provision for onerous contracts. A provision has been recognised for the estimated minimum unavoidable costs under a contract and the provision reflects the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil the contract. This contract was executed as part of the partial sale of Nixon and accordingly forms part of the discontinued operation.

For details of the partial sale of Nixon and the carrying value of assets and liabilities as at the date of sale refer to the Full Financial Report for the year ended 30 June 2012.

Note 7. Impairment of investment accounted for using the equity method

Investments in associates are accounted for using the equity method of accounting unless they are held for sale. As at 31 December 2012, the equity method was used for the Company's joint venture investment in Nixon. For this investment an impairment test was performed based on the 'expected recoverable amount' of this asset using the Value in Use method (Expected Recoverable Amount). The Board considers that this represents the most likely basis upon which the value of the investment will be realised at some time in the future. The key assumptions in the Expected Recoverable Amount model were EBITDA growth rate of 9% per annum, a future transaction multiple of 8 times and an after tax discount rate of 11.75%.

Based on the current forecasts the Company has written down its investment in the Nixon joint venture by $106.6 million to $29.1 million, being the Expected Recoverable Amount.

In determining the Expected Recoverable Amount of this asset, the Board has had regard to:

1. the deterioration in the trading of Nixon since the establishment of the joint venture, and a reduction in expected future earnings as compared to those forecast at the time of establishment;
2. the capital structure of Nixon which includes US$175.0 million in debt; and
3. the terms of the joint venture arrangements entered into when the Company sold its equity interest in Nixon down to 48.5% in April 2012.

The capital structure and the terms of the joint venture arrangements mean that the value of the Company's interest in Nixon is highly leveraged to the expected future performance of Nixon such that further variations (including improvements) in performance have a significant impact on the value of Nixon equity generally, and the Company's interest in Nixon in particular. In these circumstances the Board notes the potentially wide range of possible valuation outcomes for the Company’s investment in Nixon.

The Company holds 48.5% of the outstanding equity interest in the Nixon joint venture in the form of "Class A Common Units" whereas Trilantic Capital Partners (as to 48.5%) and Nixon management (as to 3%) hold their interests in the form of "Class A Preferred Units".

The Common Units only participate in the proceeds received from a sale or dissolution of Nixon once the Preferred Units have received both a return of their capital and a preferred return of 12% per annum compound on that capital. Hence in the event of poor performance and consequently lower sale proceeds, the returns to the Common Units will be less than those on the Preferred Units. In the event of significantly lower sale proceeds, the return to the Common Units could be zero.

Conversely, in the event of very strong performance and consequently high sale proceeds, the returns to the Common Units can be greater than those to the Preferred Units.

The Expected Recoverable Amount of $29.1 million is highly sensitive to the ultimate sale outcome projected. For example, a 10-12% change in the assumed EBITDA of Nixon at the time of sale could double this figure or reduce it to nil. The same outcomes would apply to a 1 times change in the EBITDA multiple assumed to be achieved in a sale.

Note 8. Impairment of intangible assets

(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 is firstly determined based on value-in-use (VIU) calculations. These calculations use cash flow projections based on financial budgets with anticipated growth rates approved by the Board of Directors covering a three 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.

	Goodwill		**Brands**	
	31 December 2012 $'000	30 June 2012 $'000	**31 December 2012 $'000**	30 June 2012 $'000
Billabong	---	---	29,554	252,116
Element	---	850	23,080	28,630
Von Zipper	---	---	1,187	1,187
Kustom	3,746	3,746	10,540	10,540
Palmers	---	---	---	5,113
Honolua	6,376	6,453	4,385	4,385
Beachculture	---	---	853	853
Amazon	---	---	1,100	1,074
Xcel	8,966	10,920	3,297	3,336
Tigerlily	1,889	1,889	3,600	3,600
Sector 9	23,353	26,613	8,727	8,831
DaKine	40,209	77,719	43,624	44,128
RVCA	71,544	73,943	19,393	19,625
Australia	9,640	57,473	---	---
New Zealand	8,402	8,232	---	---
North America	---	114,619	---	---
Europe	---	6,021	---	---
	174,125	388,478	149,340	383,418

As at 31 December 2012, all of the above CGUs were tested for impairment in accordance with AASB 136. Due to the deterioration in trading conditions in the global retail sector, the Group has experienced significant declines in sales and profitability across a number of regions and brands, and as a result, impairment charges were recognised for the CGUs set out in the table below.

Note 8. Impairment of intangible assets (continued)

(a) Impairment tests for goodwill and brands (continued)

	Goodwill		Brands	
	31 December 2012 $'000	30 June 2012 $'000	**31 December 2012 $'000**	30 June 2012 $'000
Billabong	---	55,083	222,562	182,417
Element	850	---	5,550	---
Palmers	---	---	5,113	---
Xcel	1,700	---	---	---
DaKine	24,792	---	---	---
Australia	47,833	17,410	---	---
South Africa	---	32,347	---	---
North America	113,359	39,500	---	---
Europe	6,065	---	---	---
	194,599	144,340	233,225	182,417

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

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

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

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

A pre-tax discount rate determined by reference to the Group's weighted average cost of capital has been used in discounting the projected cash flows. The discount rates used reflect specific risks relating to the relevant region of operation or the brand.

Terminal growth rates used in the VIU calculations reflect a degree of conservatism given the deterioration in trading conditions in the global retail sector. The terminal growth rates used reflect the maturity and establishment of the brand or region and do not exceed the long-term average growth rates for the markets to which these assets are dedicated.

EBITDA projections for brand CGUs are discounted using a pre-tax discount rate range between 15.1% and 16.3% (30 June 2012: 12.5% and 14.25%).

EBITDA projections for regional CGUs with allocated goodwill are discounted using a pre-tax discount rate of 14.5% (30 June 2012: range between 12.5% and 16.3%).

Note 8. Impairment of intangible assets (continued)

(b) Key assumptions used for value-in-use calculations (continued)
The following key assumptions shown in the table below have been used in the calculations.

		Headroom*	Discount Rate		Terminal Growth Rate		EBITDA
	Average EBITDA Growth Rate FY13–FY16 %	2012 $'m	Discount rate 2012 %	Impact on headroom of +0.5% change $'m	Terminal growth rate %	Impact on headroom of -0.5% change $'m	Impact on headroom of -10% change $'m
31 December 2012							
Billabong	35.2	---	15.1	11.5	2.5	8.0	29.6
Von Zipper	14.1	28.4	15.8	1.5	2.5	1.1	5.6
Kustom	24.7	3.8	15.8	1.0	2.5	0.7	3.5
Honolua	19.9	14.9	16.3	1.0	2.5	0.7	3.0
Tigerlily	55.3	3.3	15.8	0.6	2.5	0.4	2.1
DaKine	21.1	---	15.3	4.2	2.5	3.2	14.0
RVCA	16.5	1.9	15.8	3.5	2.5	2.8	12.7
Australia	25.1	---	14.5	6.7	2.5	5.3	9.6
New Zealand	14.5	3.4	14.5	1.1	2.5	0.8	5.6

(c) Key assumptions used for fair value less costs to sell calculations
The recoverable amount of the following CGU's has been determined using fair value less costs to sell (FVLCTS): Element, Xcel and Sector 9. In applying the FVLCTS approach, the recoverable amount of a CGU is assessed using market based valuation techniques such as comparable transactions and observable trading multiples.

The following brands' CGU's headroom is sensitive to movements in both EBITDA and multiple:

	Multiple	Headroom* $'m	Impact on headroom of -10% change in EBITDA $'m	Impact on headroom of a 1 times change in multiple $'m
31 December 2012				
Sector 9	8.5	1.8	4.5	5.3

For the other CGUs which are written down to recoverable amounts and whose carrying value is measured using the FVLCTS basis, if multiples were to reduce by 1 times or EBITDA was to reduce by 10%, the group would have recognised $17.7 million and $14.1 million respectively in higher impairment losses.

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

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

Management and the Board believe that other reasonable changes in key assumptions on which recoverable amounts have been calculated, would not cause the Group's carrying amounts for goodwill and brands to exceed their recoverable amounts. The Group has and continues to undertake a range of strategic initiatives to deliver the EBITDAI growth included in the three year 2014 to 2016 business plan.

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

Note 9. Borrowings

Debt covenant
As a result of the impairment charges in the current half-year, as at 31 December 2012, the Group would have breached its Consolidated Shareholders' Funds covenant with respect to its major banking facilities.

Subsequent to 31 December 2012, the Group's financiers agreed to an amendment to this covenant with effect from 31 December 2012 and thereafter.

As a result of the amendment not being in place at 31 December 2012, the Group has classified $269.8 million of borrowings as current liabilities on the balance sheet notwithstanding that at the date of this report they are not due to be repaid within twelve months.

As at the date of this financial report, the Company and the financiers have agreed as follows:

1. The Group will grant the financiers the right to take security over at least 80% of the Group's total assets and 85% of EBITDAI in support of the financing facilities; and
2. The Group will not pay an interim dividend for the half-year ended 31 December 2012 or a final dividend for the year ending 30 June 2013 and thereafter restrict dividends to be not more than 50% of Net Profit After Tax (after significant and exceptional items) without majority financier consent.

Note 10. Equity securities issued

	Half-year		Half-year	
	2012 Shares	2011 Shares	**2012 $'000**	2011 $'000
Issues of ordinary shares during the half-year				
Rights issue	67,974,719	---	69,334	---
Less: Transaction costs arising on rights issue	---	---	(2,523)	---
Deferred tax credit recognised directly in equity	---	---	757	---
Issued for no consideration:				
Non-controlling interest	---	1,064,516	---	3,960
	67,974,719	1,064,516	67,568	3,960
Movements in treasury shares during the half-year				
Acquisition of shares by the employee share plan trusts	(1,372,452)	(736,139)	(1,827)	(2,665)
Employee share scheme issue	744,841	477,880	5,811	5,021
Net movement	(627,611)	(258,259)	3,984	2,356

The 2011 basic and diluted earnings per share have been restated to reflect the impact of the institutional rights issue in the 2012 financial year and the retail rights issue during the half-year ended 31 December 2012 in order to achieve a comparable calculation to the 2012 basic and diluted earnings per share. This change takes into account the bonus element included in the rights offer for ordinary shares as the offer was made at a discount to market price.

(a) Rights issue

Retail Entitlement offer
On 29 June 2012 the Company invited eligible retail shareholders to participate in an accelerated non-renounceable pro-rata entitlement offer to subscribe for 6 new ordinary shares for every 7 existing ordinary shares at an issue price of $1.02 per new share with such shares to be issued on, and rank for dividends after 27 July 2012. As a result, 68.0 million new shares were issued, resulting in gross cash proceeds of $69.3 million. The entitlement offer was fully underwritten by Goldman Sachs Australia Pty Ltd and Deutsche Bank AG, Sydney Branch.

Expenses Arising From Rights Issue
Costs incurred in relation to the rights issue up to and including 31 December 2012 were $2.5 million ($1.8 million net of deferred tax credits recognised directly in equity). Directly attributable equity raising costs incurred have been recognised net of any tax effects directly in equity, and therefore do not impact earnings for the half-year ended 31 December 2012.

Note 10. Equity securities issued (continued)

(b) Transactions with non-controlling interests

On 23 September 2011 the Group acquired the remaining 50% of the issued share capital of Surfection Pty Ltd for a purchase consideration of $4.0 million issued as ordinary shares of Billabong International Limited. The Group now controls 100% of the issued share capital of Surfection Pty Ltd. The Group recognised a decrease in non-controlling interests of $3.7 million and a decrease in equity attributable to owners of the parent of $0.3 million. The effect of changes in the ownership interest of Surfection Pty Ltd on the equity attributable to owners of the Group during the prior year is summarised as follows:

	2012 $'000	2011 $'000
Carrying amount of non-controlling interests acquired	---	3,649
Consideration paid through the issue of ordinary shares of Billabong International Limited to non-controlling interests	---	(3,960)
Excess of consideration paid recognised in the transactions with non-controlling interests reserve within equity	---	(311)

On 2 October 2012 the Group acquired 31% of the issued share capital of Surfstitch Pty Ltd. The Group now controls 51% of the issued share capital of Surfstitch Pty Ltd. The Group previously had control of Surfstitch Pty Ltd through the acquisition of greater than 50% of the voting rights and has been fully consolidating this entity from the date which control was transferred to the Group, being 1 December 2009. There was no impact to the Group's contributed equity in relation to this transaction.

Note 11. Dividends

	Half-year **2012 $'000**	Half-year 2011 $'000
Ordinary shares		
Dividends provided for or paid during the half-year	---	33,025
Dividends not recognised at the end of the half-year		
The Board has not declared an interim dividend for the half-year ended 31 December 2012 (2011: 3.0 cents unfranked).	---	7,653

The Board has not declared an interim ordinary dividend for the half-year ended 31 December 2012.

The Dividend Reinvestment Plan (DRP) remains suspended.

Note 12. Business combinations

Purchase consideration – cash outflow

	Consolidated	
	2012 **$'000**	2011 $'000
Payments relating to prior year acquisitions and other immaterial current year acquisitions	67,807	58,531
Outflow of cash – investing activities	67,807	58,531

Acquisition related costs
Acquisition related costs of nil (2011: $0.2 million) are included in 'other expenses' in the income statement.

2012

There were no business combinations that were of a material nature for the half-year ended 31 December 2012. The payments for purchase of subsidiaries and businesses, net of cash acquired in the consolidated cash flow statement is in relation to the deferred consideration payments for Quiet Flight, Swell, DaKine and Sector 9, the payment relating to the increase in the Group's ownership of Surfstitch Pty Ltd from 20% to 51% and other immaterial current year acquisitions.

On 6 August 2012 the deferred consideration payment in relation to Quiet Flight was paid in full and therefore no further amounts are due in relation to this acquisition.

On 9 August 2012 the deferred consideration payment in relation to Swell was paid in full and therefore no further amounts are due in relation to this acquisition.

On 2 October 2012 the Group acquired 31% of the issued share capital of Surfstitch Pty Ltd. The Group now controls 51% of the issued share capital of Surfstitch Pty Ltd. The Group previously had control of Surfstitch Pty Ltd through the acquisition of greater than 50% of the voting rights and has been fully consolidating this entity from the date which control was transferred to the Group, being 1 December 2009.

On 20 November 2012 the deferred consideration payment in relation to Sector 9 was paid in full and therefore no further amounts are due in relation to this acquisition.

On 26 November 2012 the majority of the deferred consideration payment in relation to DaKine was paid. The remaining amount outstanding (US$1.5 million) has been retained as a reserve for payment of any purchasers' damages incurred in relation to ongoing litigation.

2011

There were no business combinations that were of a material nature for the half-year ended 31 December 2011. The payments for purchase of subsidiaries and businesses, net of cash acquired in the consolidated cash flow statement is in relation to the majority of the deferred consideration payment for Nixon and other immaterial current year acquisitions.

On 3 August 2011 the majority of the deferred consideration payment in relation to Nixon was paid with a remaining amount outstanding subject to the finalisation of a review of the taxation treatment of the payment in the hands of the recipients. The remaining amount outstanding was paid on 27 January 2012 and therefore no further amounts are due in relation to this acquisition.

On 23 September 2011 the Group acquired the remaining 50% of the issued share capital of Surfection Pty Ltd. The Group now controls 100% of the issued share capital of Surfection Pty Ltd. Refer to note 10 for further information.

Note 13. Net tangible asset backing

	Half-year **2012**	Half-year 2011
Net tangible asset backing per ordinary share	$0.47	$(0.46)

Note 14. Contingencies

There has been no change in the nature of contingencies of the consolidated entity since the last annual reporting date.

Note 15. Events occurring after the balance sheet date

On 14 December 2012, the Board received an indicative non-binding and conditional proposal from a consortium comprising Paul Naude and Sycamore Partners Management (Sycamore) to acquire all the shares in the Company for $1.10 cash per share by way of a scheme of arrangement. On 14 January 2013, the Board received an indicative non-binding and conditional proposal from a consortium comprising Altamont Capital and VF Corporation (Altamont/VF) to acquire all the shares in the company for $1.10 cash per share.

At the date of this report, discussions between Sycamore, Altamont/VF and the Board are continuing and the proposals are subject to due diligence. There is no guarantee that the following the due diligence process that binding bids from either bidder will be forthcoming or that the Board will recommend an offer at the current proposed offer price.

As a result of the impairment charges in the current half-year, as at 31 December 2012, the Group would have breached its Consolidated Shareholders' Funds covenant with respect to its major banking facilities. Subsequent to 31 December 2012, the Group's financiers agreed to an amendment to this covenant with effect from 31 December 2012 and thereafter.

Other than those items mentioned above, there has not arisen in the interval between the end of the half-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.

Directors' declaration : :

In the Directors' opinion:

(a) the financial statements and notes set out on pages 10 to 30 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Billabong International Limited will be able to pay its debts as and when they become due and payable.

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

Ian Pollard
Chairman

Gold Coast, 22 February 2013

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Billabong International Limited, which comprises the balance sheet as at 31 December 2012, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Billabong International Limited Group (the consolidated entity). The consolidated entity comprises both Billabong International Limited (the Company) and the entities it controlled during that half-year.

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

Auditor's responsibility
Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Billabong International Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

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

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

PricewaterhouseCoopers

Steven Bosiljevac
Partner

Brisbane
22 February 2013

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