Billabong International Limited

ABN 17 084 923 946

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: : INTERIM FINANCIAL REPORT 31 DECEMBER 2010

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 2010 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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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	
	2010 $'000	2009 $'000	$'000	%
Total revenue from ordinary activities	837,102	723,636	113,466	15.7%
Profit from ordinary activities after tax attributable to members	57,157	69,713	(12,556)	(18.0%)
Net profit for the period attributable to members	57,157	69,713	(12,556)	(18.0%)
Adjusted net profit for the period attributable to members	57,157	69,713	(12,556)	(18.0%)

Dividends	Amount per Security	Franked amount per security
Interim dividend	16.0 cents	8.0 cents
Previous corresponding period interim dividend	18.0 cents	9.0 cents

Record date for determining entitlements to the dividend is 21 March 2011.

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 interim dividend to be paid on 21 April 2011, 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 2011 interim dividend at any time prior to the record date of 21 March 2011. The DRP in relation to the 2011 interim dividend will not be underwritten. The terms of the DRP may be varied for future dividends beyond the interim dividend for the half-year ended 31 December 2010.

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 2010.

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:

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

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

Segment	Segment revenues		Segment EBITDA *	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Australasia	269,267	239,475	40,314	59,686
Americas	408,412	317,504	29,088	33,692
Europe	157,238	164,019	24,066	29,122
Third party royalties	1,136	1,018	1,136	1,018
	836,053	722,016	94,604	123,518
Less: Depreciation and amortisation			(20,322)	(17,513)
Net interest expense			(12,023)	(7,578)
Profit from continuing operations before income tax expense			62,259	98,427
Income tax expense			(5,102)	(28,714)
Profit from continuing operations after income tax expense			57,157	69,713
(Profit)/loss attributable to non-controlling interest			---	---
Profit attributable to the members of Billabong International Limited			57,157	69,713

* 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 half-year ended 31 December 2010 was $57.2 million, a decrease of 9.8% in constant currency terms (a decrease of 18.0% in reported terms) compared to the prior corresponding period (pcp).

Reported NPAT was significantly adversely impacted by the unfavourable effect of the appreciation of the AUD, in particular against the Euro and the USD relative to the pcp.

Group sales revenue of $834.9 million, excluding third party royalties, represents a 24.4% increase on the pcp in constant currency terms (up 15.8% in reported terms). At a segment level, in constant currency terms, sales revenue in the Americas increased 38.2%, Europe increased 14.3% and Australasia increased 13.0% over the pcp.

Consolidated gross margins remained strong at 54.3% (55.5% in the pcp).

Review of operations (continued)

EBITDA of $94.6 million represents a decrease of 17.3% in constant currency terms (a decrease of 23.4% in reported terms) compared to the pcp. The consolidated EBITDA margin of 11.3% decreased by 5.8% compared to that of the pcp of 17.1%, principally reflecting:

- the impact of a very weak retail environment in Australia;
- the unfavourable regional mix impact of the appreciation of the AUD against the USD and the Euro relative to the pcp;
- the initial combined dilutive impact of the recent acquisitions of retailers West 49 in Canada and SDS/Jetty Surf and Rush Surf, both in Australia;
- one-off M&A and restructuring costs of $10.3 million; and
- an increase in global overhead costs (which include corporate overhead, international advertising and promotion costs, central sourcing costs and foreign exchange movements) of $11.8 million to $35.7 million compared to $23.9 million in the pcp. This increase is primarily attributable to costs associated with the rollover and extension of the Syndicated Debt Facility, timing of A&P expenditure due to the Teahupoo Tahiti WCT event falling in the half-year ended 31 December 2010 (with no comparable expenditure in the pcp) and foreign exchange losses.

Segment Analysis
In addition to the specific factors discussed by segment below, EBITDA margins have been affected by the allocation of increased global overhead costs (which include corporate overhead, international advertising and promotion costs, central sourcing costs and foreign exchange movements) as discussed above and the allocation of these costs to each segment.

Australasia
Compared with the prior year in reported terms, sales revenue increased 12.4% to $269.3 million (up from $239.5 million) and EBITDA decreased 32.5% to $40.3 million (down from $59.7 million). EBITDA margins were lower at 15.0% compared with 24.9% in the pcp, principally reflecting the combined impact of a very weak retail environment in Australia, one-off M&A and restructuring costs ($6.1 million), the initial dilutive impact of the recent acquisitions of retailers SDS/Jetty Surf and Rush Surf in Australia and the abovementioned impact of the allocation of global overhead costs. Excluding the allocation of global overhead costs, EBITDA margins were 19.3% compared with 28.2% in the pcp.

Compared with the prior year in constant currency terms, sales revenue increased 13.0% and EBITDA decreased 32.1%.

Sales revenues in the Australasian segment increased over the pcp as a result of the addition of new company owned retail, including the acquisitions of SDS/Jetty Surf and Rush Surf in Australia. However, the performance of the underlying Australian business weighed on the region. A very soft summer and hi-summer indent, combined with cool, wet summer weather along Australia's east coast, including major rainfall in Queensland in particular, led to soft sales at company owned retail and lower repeat business within the wholesale account base.

Sales revenue lifted strongly in constant currency terms in Asia and Japan.

Americas
Compared with the prior year in reported terms, sales revenue increased 28.6% to $408.4 million (up from $317.5 million) and EBITDA decreased 13.7% to $29.1 million (down from $33.7 million). EBITDA margins were lower at 7.1% compared with 10.6% in the pcp, principally reflecting the initial dilutive impact of the recent acquisition of West 49 in Canada, one-off M&A and restructuring costs ($4.0 million) and the abovementioned impact of the allocation of global overhead costs. Excluding the allocation of global overhead costs, the EBITDA margins were 11.4% compared with 13.9% in the pcp.

In constant currency terms, sales revenue increased 38.2% and EBITDA decreased 5.8%.

The Group continued to see good improvement in the important US market, in particular within company owned retail operations.

Strong sales revenue growth was achieved in South America.

Review of operations (continued)

Europe
Compared with the prior year in reported terms, sales revenue decreased 4.1% to $157.2 million (down from $164.0 million) and EBITDA decreased 17.4% to $24.1 million (down from $29.1 million). EBITDA margins of 15.3% were down on the prior year of 17.8%, principally reflecting higher product input costs and the abovementioned impact of the allocation of global overhead costs. Excluding the allocation of global overhead costs, EBITDA margins were 19.6% compared with 21.1% in the prior year.

In constant currency terms, sales revenue increased 14.3% and EBITDA increased 3.9%.

Europe's sales revenue growth in constant currency terms was driven principally by the Element, Nixon and DaKine brands in Germany, France and central European countries and improved performance in company owned retail, offset by continued softness in some key southern territories, including Spain which is traditionally a strong area for the Billabong brand.

Depreciation and Amortisation Expense
Depreciation and amortisation expense increased 24.7% in constant currency terms (16.0% in reported terms) compared to the pcp due to the acquisition of RVCA, West 49, SDS/Jetty Surf, Rush Surf and retail store expansion.

Net Interest Expense
Net interest expense increased 73.4% in constant currency terms (58.7% in reported terms) compared to the pcp, driven by increased borrowings to fund the abovementioned acquisitions.

Income Tax Expense
The income tax expense for the half-year ended 31 December 2010 is $5.1 million ($28.7 million in the pcp), an effective tax rate of 8.2% (29.2% in the pcp). The lower effective tax rate is primarily driven by one-off amounts including an Original Issue Discount interest deduction of $5.0 million in the US on deferred consideration, recognition of prior year carry forward tax losses in the UK of $3.5 million and a prior year refund of withholding tax of $1.4 million from the French Tax Authority as a result of a reduction in the withholding tax rate from 10% to 5%, effective 1 January 2010. Adjusting for these one-off amounts, the effective tax rate for the Group would have been approximately 24.0% for the half-year ended 31 December 2010 (28.0% in the pcp adjusting for one-off amounts).

Consolidated Balance Sheet, Cash Flow Items and Capital Expenditure
Working capital at $386.6 million represents 22.6% as a percentage of the prior twelve months' sales (including an estimate of pre-acquisition sales to reflect a twelve month period) stated at half-year end exchange rates, being 6.5% lower compared to the pcp of 29.1%.

Excluding the significant retail acquisitions of West 49, SDS/Jetty Surf and Rush Surf, working capital represents 28.6% as a percentage of the prior twelve months' sales stated at half-year end exchange rates, being 0.5% lower compared to the pcp of 29.1%.

Cash inflow from operating activities decreased to $63.8 million, being 33.3% lower compared to $95.6 million in the pcp, principally reflecting:

- lower net cash receipts from customers, in part due to the strong AUD, in particular against the Euro and USD; and
- higher finance costs associated with the rollover and extension of the Syndicated Debt Facility.

Net cash receipts from customers of $100.6 million were 16.4% lower compared to $120.4 million in the pcp, reflecting the lower EBITDA result.

Net cash receipts from customers for the half-year ended 31 December 2010 represented 106% of EBITDA compared to 97% for the pcp reflecting strong trading cash flows for the period relative to EBITDA.

Cash outflow from investing activities of $236.7 million was in accordance with expectations and includes the acquisition of RVCA, West 49, SDS/Jetty Surf, Rush Surf and investment in owned retail globally.

Net debt increased 91.3% to $382.7 million over the pcp which was in line with expectations and includes the acquisition of RVCA, West 49, SDS/Jetty Surf, Rush Surf and investment in owned retail globally. The Group has a conservative gearing ratio (net debt to net debt plus equity) of 24.6% (14.4% in the pcp) and strong interest cover of 8.8 times (8.9 times in the pcp).

Review of operations (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.

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.

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 7.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report 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.

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

Ted Kunkel
Chairman
Gold Coast, 18 February 2011

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Auditor's independence declaration

As lead auditor for the review of Billabong International Limited for the half-year ended 31 December 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 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.

Robert Hubbard
Partner

PricewaterhouseCoopers

Brisbane, 18 February 2011

Income statement
For the half-year ended 31 December 2010 : :

	Half-year 2010 $'000	Half-year 2009 $'000
Revenue from continuing operations	837,102	723,636
Cost of goods sold	(381,778)	(320,919)
Other income	290	453
Selling, general and administrative expenses	(286,598)	(239,005)
Other expenses	(86,842)	(53,554)
Finance costs	(19,915)	(12,184)
Profit before income tax	62,259	98,427
Income tax expense	(5,102)	(28,714)
Profit for the half-year	57,157	69,713
(Profit)/loss attributable to non-controlling interests	---	---
Profit for the half-year attributable to the members of Billabong International Limited	57,157	69,713
Earnings per share for profit attributable to the ordinary equity holders of the Company	Cents	Cents
Basic earnings per share	22.8	27.9
Diluted earnings per share	22.6	27.6

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

Statement of comprehensive income
For the half-year ended 31 December 2010 : :

	Half-year **2010** **$'000**	Half-year 2009 $'000
Profit for the half-year	57,157	69,713
Other comprehensive income		
Changes in the fair value of cash flow hedges, net of tax	(2,647)	7,151
Exchange differences on translation of foreign operations	(52,934)	(11,672)
Net investment hedge, net of tax	(7,965)	(14,660)
Other comprehensive expense for the half-year, net of tax	(63,546)	(19,181)
Total comprehensive (expense)/income for the half-year	(6,389)	50,532
(Profit)/loss attributable to non-controlling interests	---	---
Total comprehensive income for the half-year attributable to members of Billabong International Limited	(6,389)	50,532

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

Balance sheet
As at 31 December 2010 : :

	31 December 2010 $'000	30 June 2010 $'000	31 December 2009 $'000
ASSETS			
Current assets			
Cash and cash equivalents	203,904	208,742	212,587
Trade and other receivables	310,153	398,378	333,875
Inventories	320,583	240,400	246,890
Current tax receivables	986	3,584	5,450
Other	24,249	27,581	22,145
Total current assets	859,875	878,685	820,947
Non-current assets			
Receivables	15,449	17,172	10,926
Property, plant and equipment	189,701	170,477	154,798
Intangible assets	1,283,530	1,118,308	977,664
Deferred tax assets	26,304	22,656	20,415
Other	7,564	3,021	4,412
Total non-current assets	1,522,548	1,331,634	1,168,215
Total assets	2,382,423	2,210,319	1,989,162
LIABILITIES			
Current liabilities			
Trade and other payables	335,759	315,545	178,907
Borrowings	15,967	20,525	15,295
Current tax liabilities	16,621	8,820	12,942
Provisions	10,214	9,889	8,215
Total current liabilities	378,561	354,779	215,359
Non-current liabilities			
Borrowings	570,675	404,933	397,376
Deferred tax liabilities	46,686	54,815	60,391
Provisions and other payables	24,589	22,271	18,950
Deferred payment	188,178	155,942	106,661
Total non-current liabilities	830,128	637,961	583,378
Total liabilities	1,208,689	992,740	798,737
Net assets	1,173,734	1,217,579	1,190,425
EQUITY			
Contributed equity	675,731	671,761	668,881
Treasury shares	(30,291)	(30,767)	(30,767)
Option reserve	7,062	7,844	4,442
Other reserves	(125,122)	(62,369)	(51,661)
Retained profits	641,885	630,290	599,530
Capital and reserves attributable to members of Billabong International Limited	1,169,265	1,216,759	1,190,425
Non-controlling interests	4,469	820	---
Total equity	1,173,734	1,217,579	1,190,425

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

	Notes	Attributable to members of Billabong International Limited: Contri-buted equity $'000	Reserves $'000	Retained earnings $'000	Total $'000	Non-con-trolling interests $'000	Total $'000
Balance at 1 July 2009		659,012	(57,256)	575,180	1,176,936	---	1,176,936
Total comprehensive income for the half-year		---	(19,181)	69,713	50,532	---	50,532
Transactions with equity holders in their capacity as equity holders:							
Dividend reinvestment plan issues	4	9,869	---	---	9,869	---	9,869
Dividends paid	5	---	---	(45,363)	(45,363)	---	(45,363)
Treasury shares purchased by employee share plan trusts	4	---	(3,472)	---	(3,472)	---	(3,472)
Option reserve in respect of employee share plan		---	1,923	---	1,923	---	1,923
		9,869	(1,549)	(45,363)	(37,043)	---	(37,043)
Balance at 31 December 2009		668,881	(77,986)	599,530	1,190,425	---	1,190,425
Balance at 1 July 2010		671,761	(85,292)	630,290	1,216,759	820	1,217,579
Total comprehensive income for the half-year		---	(63,546)	57,157	(6,389)	---	(6,389)
Transactions with equity holders in their capacity as equity holders:							
Dividend reinvestment plan issues	4	3,970	---	---	3,970	---	3,970
Dividends paid	5	---	---	(45,562)	(45,562)	---	(45,562)
Treasury shares purchased by employee share plan trusts	4	---	(4,446)	---	(4,446)	---	(4,446)
Option reserve in respect of employee share plan		---	4,140	---	4,140	---	4,140
Redemption option for non-controlling derivative		---	793	---	793	---	793
Non-controlling interests on acquisition of subsidiary		---	---	---	---	3,649	3,649
		3,970	487	(45,562)	(41,105)	3,649	(37,456)
Balance at 31 December 2010		675,731	(148,351)	641,885	1,169,265	4,469	1,173,734

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

Cash flow statement
For the half-year ended 31 December 2010 : :

	Half-year **2010** **$'000**	Half-year 2009 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	927,790	820,297
Payments to suppliers and employees (inclusive of GST)	(827,205)	(699,935)
	100,585	120,362
Interest received	990	1,522
Other revenue	2,246	1,524
Finance costs	(21,016)	(12,740)
Income taxes paid	(19,029)	(15,065)
Net cash inflow from operating activities	63,776	95,603
Cash flows from investing activities		
Payments for purchase of subsidiaries and businesses, net of cash acquired	(209,218)	(37,351)
Payments for property, plant and equipment	(23,840)	(19,020)
Payments for intangible assets	(3,899)	(2,144)
Proceeds from sale of property, plant and equipment	307	141
Net cash outflow from investing activities	(236,650)	(58,374)
Cash flows from financing activities		
Payments for treasury shares held by employee share plan trusts	(4,446)	(3,472)
Proceeds from borrowings	568,460	384,257
Repayment of borrowings	(325,724)	(487,435)
Dividends paid	(41,592)	(35,494)
Net cash inflow/(outflow) from financing activities	196,698	(142,144)
Net increase/(decrease) in cash and cash equivalents	23,824	(104,915)
Cash and cash equivalents at the beginning of the half-year	208,742	332,937
Effects of exchange rate changes on cash and cash equivalents	(28,662)	(15,435)
Cash and cash equivalents at the end of the half-year	203,904	212,587

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 2010 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 2010 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.

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 and measurement of financial assets and is unlikely 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.

Note 2. Segment information

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, 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 income tax assets and derivative assets.

Note 2. Segment information (continued)

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 2010	**Australasia $'000**	**Americas $'000**	**Europe $'000**	**Rest of the world $'000**	**Total $'000**
Sales to external customers	269,267	408,412	157,238	---	834,917
Third party royalties	---	---	---	1,136	1,136
Total segment revenue	269,267	408,412	157,238	1,136	836,053
EBITDA	40,314	29,088	24,066	1,136	94,604
Less: depreciation and amortisation					(20,322)
Less: net interest expense					(12,023)
Profit before income tax					62,259
Segment assets	1,971,866	1,108,706	237,829	---	3,318,401
Elimination					(963,421)
Unallocated assets:					
Deferred tax					26,304
Derivative assets					1,139
Total assets					2,382,423
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	113,514	182,129	4,180	---	299,823

Note 2. Segment information (continued)

Half–year 2009	**Australasia $'000**	**Americas $'000**	**Europe $'000**	**Rest of the world $'000**	**Total $'000**
Sales to external customers	239,475	317,504	164,019	---	720,998
Third party royalties	---	---	---	1,018	1,018
Total segment revenue	239,475	317,504	164,019	1,018	722,016
EBITDA	59,686	33,692	29,122	1,018	123,518
Less: depreciation and amortisation					(17,513)
Less: net interest expense					(7,578)
Profit before income tax					98,427
Segment assets	1,699,247	855,426	253,888	---	2,808,561
Elimination					(842,084)
Unallocated assets:					
Deferred tax					20,415
Derivative assets					2,270
Total assets					1,989,162
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	12,418	14,425	8,877	---	35,720

Note 3. Income tax expense

The income tax expense for the half-year ended 31 December 2010 was $5.1 million (2009: $28.7 million), an effective rate of tax of 8.2% (2009: 29.2%). The lower effective tax rate is primarily driven by one-off amounts including an Original Issue Discount interest deduction of $5.0 million in the US on deferred consideration, recognition of prior year carry forward tax losses in the UK of $3.5 million and a prior year refund of withholding tax of $1.4 million from the French Tax Authority as a result of a reduction in the withholding tax rate from 10% to 5%, effective 1 January 2010. Adjusting for these one-off amounts, the effective tax rate for the Group would have been approximately 24.0% in the half-year ended 31 December 2010 (2009: 28.0% adjusting for one-off amounts).

The prior year carry forward tax losses in the UK have been recognised as the Group expects to generate taxable profit in this region in the foreseeable future against which these losses can be applied.

Note 4. Equity securities issued

	Half-year		Half-year	
	2010 Shares	2009 Shares	**2010 $'000**	2009 $'000
Issues of ordinary shares during the half-year				
Issued for no consideration:				
Dividend Reinvestment Plan issues	491,274	845,577	3,970	9,869
	491,274	845,577	3,970	9,869
Movements in treasury shares during the half-year				
Acquisition of shares by the employee share plan trusts	(570,000)	(330,450)	(4,446)	(3,472)
Employee share scheme issue	381,200	---	4,922	---
Net movement	(188,800)	(330,450)	476	(3,472)

Note 5. Dividends

	Half-year **2010 $'000**	Half-year 2009 $'000
Ordinary shares		
Dividends provided for or paid during the half-year	45,562	45,363
Dividends not recognised at the end of the half-year		
In addition to the above, since the end of the half-year the Directors have recommended the payment of an interim dividend of 16.0 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 interim dividend expected to be paid on 21 April 2011 (2009: 22 April 2010) out of retained profits at 31 December 2010, but not recognised as a liability at the end of the half-year, is	40,578	45,515

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 interim dividend to be paid on 21 April 2011, 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 2011 interim dividend at any time prior to the record date of 21 March 2011. The DRP in relation to the 2011 interim dividend will not be underwritten. The terms of the DRP may be varied for future dividends beyond the interim dividend for the half-year ended 31 December 2010.

Note 6. Business combinations

Purchase consideration – cash outflow

	Consolidated	
	2010 $'000	2009 $'000
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	203,610	---
Less: Cash balances acquired	(258)	---
Add-back: Bank overdraft	3,461	---
	206,813	---
Payments relating to prior year acquisitions	2,405	---
Outflow of cash – investing activities	209,218	---

Acquisition related costs
Acquisition related costs of $7.4 million are included in other expenses in profit or loss in the half-year ended 31 December 2010. Of this amount $3.1 million relates to the acquisition of 'West 49 Inc.' and $4.3 million relates to the 'Bay Action, RVCA, Surfection, SDS/Jetty Surf and Rush Surf' acquisitions disclosed in aggregate below.

2010

West 49 Inc.

(a) Summary of acquisition

On 1 September 2010 Billabong International Limited acquired 100% of the shares of West 49 Inc., a leading Canadian specialty retailer of apparel, footwear, accessories and equipment related to the youth action sports lifestyle. The acquisition has increased the Group's market share in Canada.

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

	$'000
Purchase consideration:	
Cash paid	94,038
Total purchase consideration	94,038

Note 6. Business combinations (continued)

(a) Summary of acquisition (continued)

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

	Fair value $'000
Other receivables	1,224
Inventory	29,661
Plant and Equipment	20,276
Prepayments	704
Deferred tax assets	1,543
Bank overdrafts	(3,461)
Trade and other payables	(46,636)
Provision for taxation	(16,949)
Identifiable intangible assets	286
Net identifiable assets acquired	(13,352)
Add: goodwill	107,390
Net assets acquired	94,038

The above accounting in regards to the 'West 49 Inc.' acquisition has been determined provisionally pending a review of the fair value of identifiable assets and liabilities.

The acquired business contributed revenues of $82.0 million and net profit after tax of $1.7 million to the Group for the period from acquisition to 31 December 2010.

Bay Action, RVCA, Surfection, SDS/Jetty Surf and Rush Surf

(a) Summary of acquisitions

On 2 July 2010 GSM (Operations) Pty Ltd and Pineapple Trademarks Pty Ltd acquired the assets and certain liabilities of Bay Action Pty Ltd, Byron Concepts Pty Ltd, Big Kahoona Pty Ltd and the Timperley Partnership, a number of retail stores primarily featuring surf and related lifestyle apparel and accessories. The acquisition has increased the Group's market share in the Australian retail sector.

On 21 July 2010 Seal Trademarks Pty Ltd, GSM Add 2, Inc. and GSM Investments Ltd acquired the assets and certain liabilities of RVCA Corporation, RVCA Platform, LLC, VASF LLC and RVCA LA, LLC, a progressive art and design-driven brand. The acquisition has provided the opportunity to further expand the North American and international sales representation through the Group's distribution network.

On 23 September 2010 GSM (Operations) Pty Ltd acquired 50% of the issued share capital of Surfection Pty Limited, a retail chain primarily featuring surf and related lifestyle apparel and accessories, 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 retail sector. Surfection Pty Limited has been fully consolidated from the date on which control was transferred to the Group.

On 8 November 2010 Board Sports Retail Pty Ltd and Pineapple Trademarks Pty Ltd acquired the assets and certain liabilities of Jetty Surf Pty Limited, a retail chain operating under the banners SDS and Jetty Surf, primarily featuring surf and related lifestyle apparel and accessories. The acquisition has increased the Group's market share in the Australian retail sector.

Note 6. Business combinations (continued)

(a) Summary of acquisitions (continued)

On 26 November 2010 GSM (Operations) Pty Ltd and Pineapple Trademarks Pty Ltd acquired the assets and certain liabilities of Rush Lifestyle Australia Pty Ltd, Rush Lifestyle Clothing Australia Pty Ltd and W R James Pty Ltd, a retail chain primarily featuring surf and related lifestyle apparel and accessories. The acquisition has increased the Group's market share in the Australian retail sector.

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

	$'000
Purchase consideration:	
Cash paid	109,572
Deferred consideration	37,783
Contingent consideration	24,666
Total purchase consideration	172,021

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

	Fair value $'000
Cash and cash equivalents	258
Trade and other receivables	6,200
Inventory	33,644
Plant and Equipment	13,963
Prepayments	269
Deferred tax assets	3,434
Employee entitlements	(1,248)
Trade and other payables	(26,529)
Deferred tax liabilities	(13)
Identifiable intangible assets	30,293
Net identifiable assets acquired	60,271
Less: non-controlling interests	(3,649)
Add: goodwill	115,399
Net assets acquired	172,021

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 half-year ended 31 December 2010, up to US$40.3 million will be deductible for tax purposes.

The above accounting in regards to the 'Bay Action, RVCA, Surfection, SDS/Jetty Surf and Rush Surf' acquisitions has been determined provisionally pending a review of the fair value of identifiable assets and liabilities.

The acquired businesses contributed revenues of $66.5 million and net profit after tax and non-controlling interests of $6.2 million to the Group for the period from each acquisition to 31 December 2010.

Note 6. Business combinations (continued)

(i) Deferred and contingent consideration
In relation to the acquisition of the assets and certain liabilities of RVCA Corporation, RVCA Platform, LLC, VASF LLC and RVCA LA, LLC, additional consideration will be payable in cash on 1 July 2015. In relation to the acquisition of the assets and certain liabilities of Jetty Surf Pty Limited, additional consideration will be payable in cash from 1 November 2013. As at their respective acquisition dates a present value amount totalling $62.4 million was recognised as a non-current deferred consideration liability for these acquisitions of which $37.8 million is deferred and $24.6 million is contingent consideration. The aggregated range of the contingent consideration is a minimum of nil and there is no prescribed maximum.

(ii) Acquired receivables
The fair value of acquired trade and other receivables is $7.4 million. The gross contractual amount of the acquired trade receivables is $9.9 million and an amount of $2.5 million is considered to be uncollectible as at the acquisition date.

(iii) Non-controlling interests
The Group elected to recognise the non-controlling interests for Surfection Pty Limited at fair value.

(iv) Revenue and profit contribution
If the acquisitions had occurred on 1 July 2010, consolidated revenue and consolidated net profit after tax and non-controlling interests for the half-year ended 31 December 2010 would have been $920.4 million and $52.8 million respectively based on best estimates.

Prior period (2009)
There were no business combinations that were of a material nature for the half-year ended 31 December 2009. The payments for purchase of subsidiaries and businesses, net of cash acquired in the consolidated cash flow statement is in relation to the second instalment payment for the DaKine acquisition and the acquisition of the United States based online boardsports retailer Swell.com as announced to the market on 24 November 2009.

Note 7. Net tangible asset backing

	Half-year **2010**	Half-year 2009
Net tangible asset backing per ordinary share	$(0.44)	$0.84

Note 8. Contingencies

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

Note 9. Events occurring after the balance sheet date

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 Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

In the Directors' opinion:

(a) the financial statements and notes set out on pages 8 to 20 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 2010 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.

Ted Kunkel
Chairman

Gold Coast, 18 February 2011

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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 2010, 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 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 an Interim 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 2010 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. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. 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.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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

Independence

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

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 2010 and of its performance for the half-year ended on that date; and

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

PricewaterhouseCoopers

Robert Hubbard
Partner

Brisbane
18 February 2011