

BILLABONG INTERNATIONAL LIMITED ABN 17 084 923 946



SHAREHOLDER REVIEW\_ 2012/2013



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## CHAIRMAN'S REPORT

In 2013 Billabong marked 40 years since it was founded in Burleigh Heads, on Australia's Gold Coast.

In this, my first Chairman's report, I have detailed the significant challenges and changes the Company has faced over the last financial year, without doubt its toughest period in those 40 years.

Most importantly I have every confidence that, having confronted and dealt with these challenges, the future of the Company has been secured and the process of reinvigorating and reinvesting in the world-class brands within the Billabong Group has begun.

### **Bid and refinancing process**

In the period since 30 June 2012 Billabong International Limited received conditional and non-binding takeover proposals from four parties/consortiums, followed by separate refinancing proposals from three parties/consortiums. Dealing with those seven proposals, as well as informal approaches from a number of other parties, in a little over 12 months has dominated the Company's time, management resources and focus.

In July 2012 the Company received a non-binding and conditional takeover

proposal from private equity firm TPG. In September 2012 it received a second conditional and non-binding takeover proposal from a private equity firm, whose name was subject to a confidentiality agreement at their request.

Both those parties had withdrawn by October 2012, shortly before I was appointed to the Board of Billabong International Limited as Chairman.

In December 2012 the Company announced that Director and President of the Americas Paul Naude, in conjunction with US private equity firm Sycamore, had put forward a non-binding and conditional whole of Company proposal. A consortium consisting of US-based private equity firm Altamont and US-listed VF Corporation put forward a competing takeover proposal in January.

Neither of those proposals proceeded and on 4 June 2013 the Company announced that it had received competing refinancing and asset sale proposals from the Sycamore Consortium and from Altamont.

Throughout the entire process through to mid-July the only proposal capable of execution by the

Board was that provided by Altamont which was executed and announced to the market on 16 July 2013. That transaction also involved the sale to Altamont of the DaKine brand.

The refinancing component of Altamont's proposal was later modified following an application to the Takeovers Panel by Centerbridge Partners, L.P. and Oaktree Capital Management, L.P. (together the "C/O Consortium") who also presented to Billabong a refinancing proposal.

On 19 September 2013, Billabong announced that, following receipt of a binding proposal from the C/O Consortium, it had entered into agreements with that consortium in relation to a long term financing to recapitalise the Company.

This agreement was superior to Altamont's and provides Billabong with a stronger balance sheet and capital structure to allow it to stabilise the business and implement the strategies and initiatives required to restore earnings growth.

The announcement of 19 September 2013 represented the culmination of an extraordinary period in our Company's history. All of the above-mentioned proposals had to be negotiated, evalu-

ated and dealt with as appropriate. As a whole this process was distracting and expensive and above all put severe constraints on the strategic progress of Billabong. Nevertheless some important progress has been made in the simplification of the business through store closures (93 Company-owned stores closed during the year), rationalisation of supplier numbers as well as distribution and organisational restructuring in South America, Canada, Europe, Asia and South Africa.

We are disappointed for shareholders and for the business that it has taken so long to reach a conclusion where the Company's financial position is secured and long-term funding is in place and able to be strengthened through the resolutions to be put to shareholders at the upcoming AGM.

Those working within the Company have made every effort and gone to extraordinary lengths to achieve this result. We all would have liked to be able to focus back on building the brands and the business rather than on due diligence, data rooms, legal protocols and negotiations.

**CHAIRMAN'S REPORT CONTINUES>**

## CHAIRMAN'S REPORT

### **Board and management changes**

Over the last 12 months a process of Board renewal has been undertaken.

Chairman of the Audit Committee Allan McDonald retired at last year's AGM and long-serving Chairman Ted Kunkel retired shortly thereafter.

Howard Mowlem, who now chairs the Audit Committee, joined the Board in October 2012.

In August 2013 Paul Naude resigned as a Director of the Company and as President of the Americas. CFO Craig White resigned in December 2012, with Peter Myers appointed to that role in January 2013.

It has more recently been announced that Tony Froggatt and Sally Pitkin will be retiring from the board on completion of the long term refinancing of the Company with the O/C consortium.

I would like to acknowledge the contribution of all those senior members of our team, both those who left the Company and those who stepped in to replace them during these recent challenging times.

I especially would like to thank CEO Launa Inman for her vision, for her commitment and for supporting whatever she thought was right for Billabong, its people and its shareholders. In that context she showed remarkable resilience in supporting in every way she could these time-consuming and distracting refinancing proposals – even though she knew that they would inevitably lead to her being required to step down from her role, which she ultimately did in August.

The board appointments in regards to both Altamont and OC were being finalised at the time of writing this report. Altamont is currently represented by Jesse Rogers and Keoni Schwartz and it is anticipated that the O/C Consortium will be represented by Jason Mozingo and Matthew Wilson.

Neil Fiske, who has an extensive CV in brand building, retail and complex turnarounds in the United States, was appointed CEO in September 2013 and commenced working with Billabong in that month.

## Financial overview and outlook

A full overview of financial performance is provided in this publication.

In respect of the 2012-13 financial year the Company announced global sales revenue of \$1,340 million, down 13.5% on the previous corresponding period in reported terms (down 12.6% in constant currency terms). Billabong incurred a Net Loss after Tax for the year ended 30 June 2013 of \$859.5 million. The result was impacted by \$867.2 million of significant items, including \$604.3 million non-cash impairment of goodwill, brands and other intangibles (of which \$427.8 million was taken at 31 December 2012) and \$129.6 million relating to a non-cash write down of its investment in Nixon (of which \$106.6 million was taken at 31 December 2012).

Among other balance sheet adjustments the Company was required to undertake significant write-downs of brands Billabong and Element.

Despite these accounting treatments these brands and our others such as RVCA and Von Zipper remain globally recognised.

No dividends were paid in the current year and it's too early to talk about a return to the payment of dividends.

The steps taken to address the balance sheet issues in the 2013 accounts and subsequently through the sale of DaKine and the refinancing are the core foundation for the rebuilding of Billabong in the months and years ahead.

Our Company, brands and people have never been more tested than in the last 12 months. Despite facing a turbulent and uncertain time in the brightest of market and media spotlights, the Company achieved sales of \$1.34 billion and Earnings Before Interest, Depreciation, Amortisation and significant items of \$72.6 million.

I am confident that the way the brands have withstood that challenge and the character and resilience our people have shown, will all serve the Company and shareholders well as Billabong rebuilds.

Finally and most importantly I would like to thank our employees for their ongoing commitment and support to the Company over this very challenging year.

**- Ian Pollard**

## FINANCIAL OVERVIEW

The Group made a net loss after tax of \$859.5 million in the year ended 30 June 2013. The majority of that loss related to non-cash items, such as impairments. Group sales revenue of \$1,340 million was down 6.8% in reported terms (down 5.9% in constant currency terms) on the prior corresponding period (pcp) after excluding Nixon from the prior year, while Adjusted Earnings Before Interest, Tax Depreciation, Amortisation and Impairment (EBITDAI) (excluding significant items and Nixon) was \$72.6 million for the Group, a decrease of 16.4% on the same basis.

### SEGMENT RESULTS

#### The Americas

Adjusted EBITDAI increased 0.8% in reported terms (0.6% in constant currency) on the back of (5.6%) decrease in sales following the closure of a number of underperforming stores and a strategic shift in channel distribution away from close out/distressed sales channels towards more long term and profitable channels, such as e-commerce.

#### Australasia

Retail store closures and a weak trading environment impacted on overall sales. In reported terms there was a 17.4% lift in Adjusted EBITDAI (20.2% in constant currency terms) through restructuring and cost reduction.

#### Europe

Adjusted EBITDAI decreased from \$19.4 million in the pcp to a small loss of \$0.1 million. While the European trading environment remains extremely challenging, including heavy promotional discounting in the retail sector, significant restructuring has and will continue to be undertaken in Europe. SurfStitch Europe start-up losses of \$7.6 million impacted an already weak performance.

#### Impairment and Significant Items

The result for the year includes a range of impairment charges and significant items which reflect the difficult trading conditions experienced by the Group, the cost in responding to the various potential control and refinancing proposals received during the year and the costs associated with a range of restructuring initiatives developed and/or implemented during the year.



### **Specifically the charges include**

Impairment of intangibles including brands, goodwill and other intangibles - \$604.3 million;

Impairment of the Group's investment in Nixon - \$129.6 million;

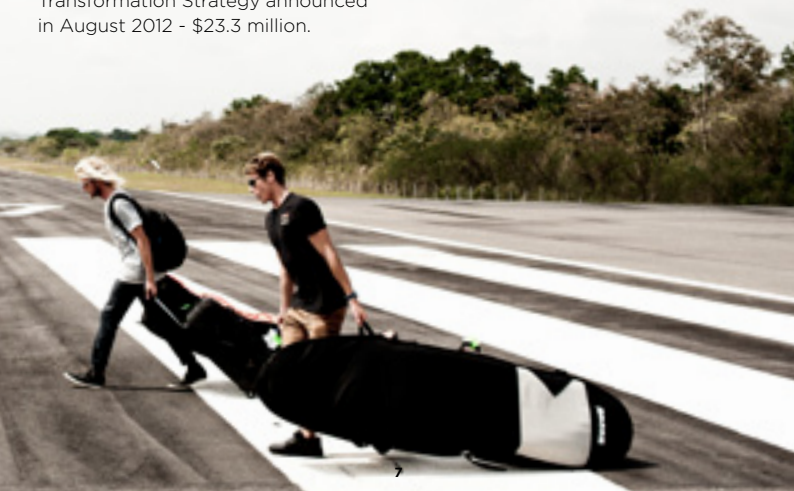
Write off of fixed assets including certain real estate and fixtures/fittings in loss making retail stores - \$32.6 million;

Provision for inventory and receivable losses, the majority of which relates to restructuring of operations in various geographies in accordance with the Group's plans to simplify its business model - \$32.0 million;

Professional, banking and consulting costs associated with the various control proposals, refinancing and banking restructuring and the Transformation Strategy announced in August 2012 - \$23.3 million.

Directors note the extraordinary circumstances which have existed for the Group throughout the last financial year and the resulting substantial cost.

Whilst the Group faces a period of rebuilding and reform, it is not expected that the significant items will continue at these levels.



## GOVERNANCE OVERVIEW

The Board of Directors is responsible to shareholders for the performance of the Group and believes that high standards of corporate governance underpin the Company's objective of maximising returns to shareholders. The Board is committed to the highest level of governance and endeavours to foster a culture that rewards ethical standards and corporate integrity.

**Underpinning the guidelines are eight key principles, being:**

- Lay solid foundations for management and oversight
- Structure the Board to add value
- Promote ethical and responsible decision making
- Safeguard integrity in financial reporting
- Make timely and balanced disclosure
- Respect the rights of shareholders
- Recognise and manage risk
- Remunerate fairly and responsibly

Greater detail on compliance with each of the principles is available in the Company's 2012-13 Full Financial Report and on the website

**[www.billabongbiz.com](http://www.billabongbiz.com)**





## BOARD OF DIRECTORS

The following persons were Directors of Billabong International Limited during the financial year ended 30 June 2013 and continue in office at the date of this report:

### **IAN POLLARD**

(Non-Executive Chairman from 24 October 2012)

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Dr Ian Pollard was appointed Non-Executive Director on 24 October 2012 and is Chairman of the Board and Nominations Committee and a member of the Human Resource and Remuneration and Audit Committees. Dr Pollard is an actuary, Rhodes Scholar and a Fellow of the Australian Institute of Company Directors. He has held a wide range of senior business roles including as Chairman of Just Group Limited and as a Director of OPSM Group Limited and DCA Group Limited, which he founded. He is currently Chairman of RGA Reinsurance Company of Australia Limited and an executive coach with Foresight's Global Coaching. With an extensive background in corporate finance, strategic investment and retail Dr Pollard has chaired several public company audit committees and was a member of the ASX Corporate Governance Implementation Review Group from 2003 to 2007. Dr Pollard is a director of Milton Corporation Limited. He is also a director of Shopping Centres Australasia Property Group RE Limited (SCPRES) (the responsible entity of Shopping Centres Australasia Property

Management Trust and Shopping Centres Australasia Property Retail Trust), which are associated with listed stapled securities of Shopping Centres Australasia Property Group.

### **TONY FROGGATT**

(Non-Executive Director)

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Tony Froggatt was appointed Non-Executive Director on 21 February 2008. He is a member of the Nominations, Human Resource and Remuneration and Audit Committees. He was the CEO of Scottish and Newcastle PLC brewing company based in Edinburgh, UK, until he retired on 31 October 2007 to return to Australia. He has extensive marketing and distribution knowledge in Australia, Western and Central Europe and Asia, particularly in the international food and beverages sectors. He is also a Director of Brambles Limited and Coca-Cola Amatil Limited.

### **GORDON MERCHANT AM**

(Non-Executive Director)

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Gordon Merchant founded Billabong's business in 1973 and has been a major stakeholder in the business since its inception. He was appointed Non-Executive Director on 4 July 2000

and is a member of the Nominations and Human Resource and Remuneration Committees. Mr Merchant has extensive experience in promotion, advertising, sponsorship and design within the surfwear apparel industry. Mr Merchant was awarded a Member of the Order of Australia in the 2010 Australia Day Honours List for service to business, particularly the manufacturing sector, as a supporter of medical, youth and marine conservation organisations, and to surf lifesaving. He is also a director of Plantic Technologies Limited.

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### **COLETTE PAULL**

(Non-Executive Director)

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Colette Paull was appointed Non-Executive Director on 4 July 2000 and is a member of the Nominations and Human Resource and Remuneration Committees. She was one of the earliest employees of the Billabong business in 1973. Since that time, Ms Paull has been broadly involved in the development of Billabong's business from its initial growth within Australia to its expansion as a global brand. Ms Paull previously held the position of Company Secretary until 1 October 1999. She is also a director of Plantic Technologies Limited.

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### **SALLY PITKIN**

(Non-Executive Director)

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Dr Sally Pitkin was appointed Non-Executive Director on 28 February 2012. Dr Pitkin is Chair of the Human Resource and Remuneration Committee

and a member of the Audit and Nominations Committees. She is a former corporate partner of a leading Australian law firm, and has extensive experience as a non-executive director in listed companies, private entities, and public sector and nonprofit organisations. Dr Pitkin is the Deputy President of the Queensland Division of the Australian Institute of Company Directors. She is also a director of Super Retail Group Limited.

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### **HOWARD MOWLEM**

(Non-Executive Director from 24 October 2012)

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Howard Mowlem was appointed Non-Executive Director on 24 October 2012 and is Chairman of the Audit Committee and a member of the Nominations and Human Resource and Remuneration Committees. He is a Fellow of CPA Australia and is experienced in many segments of the international retail industry and specifically in Asia. From 2001 to 2010 he was Chief Financial Officer of Dairy Farm International Holdings Limited, a Hong Kong based retail company operating over 5,000 stores across Asia with turnover in excess of US\$10 billion. Prior to this Mr Mowlem held various senior financial positions over a 12 year period with the Coles Myer Group. He brings extensive experience in corporate finance, mergers and acquisitions, financial reporting, treasury, tax, investor relations, audit and governance.

Billabong recognises the value of environmental, social and sustainable business practices. Our brands continue to strive for innovative product concepts that also align with our environmental values. The RVCA brand continues to support creative and artistic communities through its Artist Network Program, including providing financial support to several art galleries, curating exhibits, and exposing artists through the ANP Quarterly Magazine. RVCA has also partnered with Coca-Cola and its Ekocycle initiative to produce boardshorts and art-inspired t-shirts that are made from recycled plastic bottles. The Xcel brand continued its commitment to socially-responsible initiatives at its solar-powered Hawaii factory and administrative headquarters, as well as through its ongoing cleaner manufacturing practices and use of sustainable materials throughout its surf, dive, and sun-protective product line. The Sector 9 brand continues to make widespread use of alternative materials such as bamboo. The brand also recycles 100% of their wood scrap from the manufacturing process and they use recycled packaging materials. They also use wind energy credits and have won the Surfrider Foundation's 'Friends of the Ocean' award for their beach cleanup

A photograph showing a pile of crushed blue plastic bottles on the left and a piece of red and black fabric on the right. The word 'RECYC' is printed in large, bold, blue letters across the center, with the 'C' partially cut off on the right edge.

# RECYC

**Millions of bottles end up in the ocean or as landfill everyday. Billabong have pioneered and continued to lead an environmental push to reduce PET waste,**

initiatives. The VonZipper brand has the Shift into Neutral offer, which has frames made from castor bean oil and the Element brand continues to run its environment-focused Elemental Awareness program and introducing its new global recycling campaign 'No Board Left Behind'. Element Eden has an advocate program where we work with young inspiring women.

Each individual advocate has a passion for something ranging from art and music, to adaptive sports, to preventing young girls from bullying. They all share a common thread for social and environmental awareness with an inspiring story to empower young women. The Eden apparel is often used as a platform for their message. You can find more on each



LER

BY THE BOARD

4 x King Environmental Product Series



RECYCLER

giving it new life, turning it into recycled garments. So far over 51 million bottles have been recycled into boardshorts and with 9 bottles making one pair of Recycler Jeans, this will only increase as Billabong continues to incorporate recycled waste into developing innovative products.

advocate at <http://us.elementeden.com/g/advocates>. In the Billabong brand, initiatives include the ongoing program in which boardshorts are made with recycled plastic bottles. Almost 60 million plastic bottles had been used in the program by the end of August 2013. That highly successful program will this year be extended to jeans which are also made from recycled plastic bottles. In the USA the Billabong brand continues to support SIMA Environmental Fund through its commitment to purchasing 100% organic cotton blank T's from Anvil through the purchase of cotton from certified organic cotton farmers (through a Texas Farmers co-op), who use no pesticides, fertilisers or genetically engineered seeds, in accordance with the USDA's

National Organic Program (NOP). It means our organic fabric is always clearly identified and tracked through the cutting and sewing process. A portion of the net proceeds from these T's are donated to SIMA Environmental Fund by Billabong and Anvil to promote ecological and environmental organizations whose efforts are focused on enhancing the ocean environment. Billabong was presented with a 2011 Leader of Change Award by the United Nations-supported Foundation for Social Change in recognition of its ongoing commitment to social and environmental initiatives. Billabong continues to proudly support SurfAid and its work empowering communities living in remote isolated areas of Indonesia and beyond.



Billabong—the Group’s cornerstone brand —has earned its positioning as the world’s premiere action sports label by fusing a deep surfing heritage with modern youth appeal. Billabong’s presence across all the board sports genres was virtually inescapable during the 2012-13 financial year, with powerful media exposure for its events and athletes combined with increasing attention for its eco-friendly product innovations.

Billabong’s Recycler Series boardshort line has continued to set the global styling standard for the category while keeping some 58 million plastic bottles from our landfills (at the same time earning its fourth straight Surf Industry Manufacturers Association award for Best Environmental Product). More brand kudos were bestowed at the Australian Surf Retailers Federation Awards where Billabong was honoured as the Best Brand on the Women’s side and for the Top Men’s Campaign for the “Life’s Better in Boardshorts” creative.

But it was in the realm of its sponsored athletes where even better news was spread as Billabong’s best team riders proved their elite bloodlines in bringing home a case full of World Champion trophies. Joel Parkinson was crowned

the Association of Surfing Professionals Men’s World Champ following his dramatic win at the Billabong Pipe Masters in Hawaii, while Billabong’s investment in developing future stars paid off with Jack Freestone taking the ASP World Junior Title and Josh Moniz capturing the ISA’s World Junior honours.

On the lakes, Raph Derome dominated as Wakeboarder of the Year, while in the mountains, Jamie Anderson wore a neck-full of X-Games Gold Medals as snowboarding’s most decorated female rider. In the waves that measured like mountains, Shane Dorian won the Ride of the Year and Keala Kennelly won the Women’s honours at the Billabong XXL Big Wave Awards for efforts at Jaws in Hawaii that rewrote the books on paddle-in performance, making headlines worldwide.

Billabong’s events were just as successful, taking their brand message visually to both core surf aficionados and mainstream sporting fans at the same time. The XXL Awards provided new World Record images for the Guinness Book and Billabong’s ASP World Tour events provided live streams of information age drama for pro surfing fans watching the international action at the Billabong Pros in Rio de Janeiro, Brazil and Teahupoo, Tahiti, and the season-ending Billabong Pipe Masters in Hawaii, USA.





Social media has continued its growth as a crucial tool in sharing the excitement of any brand in 2013, and Billabong has firmed its dominance as the top content and information disseminator in the beach lifestyle space. Feeding a rapidly-growing 4.2 million Facebook fans with their daily requirements of outdoor youth inspiration and keeping Instagram

and Twitter followers filled with nourishing posts, Billabong's content acquisition and distribution network has set the social media standard for an entire industry heading into 2014 and beyond.

[www.billabong.com.au](http://www.billabong.com.au)  
[www.billabonggirls.com.au](http://www.billabonggirls.com.au)



Element is a revolutionary and conscious lifestyle brand, with skateboarding at its roots. This year the brand continued its focus on reaching active youth by activating the best team in skateboarding, re-affirming the mission behind Element's womens division, creating compelling digital video content and supporting the skateboarding community. Led by a group of young inspired athletes, Element branding appeared atop more podiums and stages than ever before. Phenom athletes Nyjah Huston and Tom Schaar continued to exceed expectations, winning 4 X Games Gold Medals, and garnishing millions of digital impressions for their feats. The Element team was nominated for "Best Team" and "Best Rookie" by Transworld Media. Supported by a focused digital marketing campaign, Element rider Nick Garcia was elevated to the professional ranks, driving increased web traffic social media reach across all channels. In promotion of new pro Evan Smith, Element produced "THE EVAN SMITH EXPERIENCE" followed by the video "SOUL REBEL" featuring seasoned veteran Mark Appleyard. These projects received millions of

views through iTunes, social media and Element digital properties. In keeping with our core brand values, Element introduced "NO BOARD LEFT BEHIND", an initiative and event series that takes used skateboards and recycles them into new cruisers, creating a one-of-a-kind skateboard with a second life. This authentic global campaign has already recycled hundreds of boards, promoting awareness for a more sustainable lifestyle. Eden, Element's womens division launched a campaign combining lifestyle photography with artwork by the Element Advocate team. One specific initiative called the "KIND Campaign," featured two Element Advocates taking their message of anti-bullying into schools across the nation. The year was capped with "MAKE IT COUNT," Element's International Skate Contest Series. Through a series of regional events youth from all around the world have the opportunity to win a trip to California's Sierra mountains and compete in the championship held at the Element YMCA Skate Camp, the living, breathing soul of Element.

[www.elementbrand.com](http://www.elementbrand.com)  
[www.elementeden.com](http://www.elementeden.com)





Unique textiles, the fusion of fashion and classic themes, the continuous quest for the perfect bikini; these are the elements that have established Tigerlily as a leader in premium swimwear and fashion.

During the 2012-13 financial year, Tigerlily unveiled its beachside Byron Bay store, becoming the 10<sup>th</sup> full priced store in the brands portfolio. Byron Bay was a welcome addition to a store base that performed exceptionally well, with strong double digit like sales growth and margins that grew ahead of the sales line. Tigerlily will open its 11<sup>th</sup> store in Adelaide at the end of August, the first store for the brand in South Australia.

During the year the brand launched its loungewear offer - a product range that showcases luxurious fabrics mixed with the Tigerlily design

and print aesthetic. The collection is designed with comfort and fashionability in mind. The product range will be an ongoing offer appearing year round in stores.

At the same time, new swimwear fits and shapes designed to accommodate a broader range of body shapes was successfully launched into the market. The offer was central to an expanded swimwear line and contributed to sales growth in the swimwear category across the course of the year.

The 2012-13 financial year also saw the business enter into a distribution agreement for the USA market. Early season sell in has been positive, with strong distribution partners secured and orders increasing across the two seasons that have been showcased.

**[www.tigerlilyswimwear.com.au](http://www.tigerlilyswimwear.com.au)**



# RVCA

RVCA is the modern youth lifestyle brand that redefines the way the market views art and fashion as represented through the balance of opposites and how they coexist: water, oil; air, land; destruction, industrialisation; art, science; foreign, domestic; order, chaos; past, present. Built around RVCA's Artist Network Program (ANP), the brand's philosophy is to give a unique cast of artists, athletes and advocates a platform for creative expression.

In 2012-13 financial year, RVCA pushed the creative platform to a new level with the RVCA Caravan, a two-week adventure in Australia. In a fleet of brightly colored Jeeps filled with surfboards, skateboards, music equipment and art supplies, the RVCA Caravan made its way from Byron Bay to Sydney. The Caravan was loose, and the crew was an eclectic and eccentric group of ANP artists, surfers and skaters who don't normally find themselves on the same program. The Caravan was a content-generating machine that made global impact through heavy social media outreach and editorial partnerships. It connected locally through retail activations, art exhibits and music concerts. The caravan is on the move, and the world anticipates where it will roll through next.

In addition to the Caravan, RVCA created daily videos, photos and news posts to share the brand story and significantly increase social media reach and web traffic. Highlights included mini-doc videos and features on ANP artists, MMA fighters, surfers, skaters, musicians and other advocates in the RVCA family.

RVCA didn't just live in the digital world. It scored big wins at the retail level in both the flagship stores and several top wholesale accounts with "RVCA Experience" events where ANP artists showcased their art and related product capsules to the local community.

RVCA also re-ignited its Women's business by launching a Swim line in Spring and bringing on a new advocate, Ashley Smith, to be the face of the Women's brand. Ashley grew up in the music/skate scene of Austin Texas, was discovered by NYC Marilyn Model Agency at SXSW, and has been taking the fashion world by storm ever since. She has one foot in the limo and one foot in the gutter... she's as comfortable on the runway as she is in the streets. Perfect for RVCA's position in the market.

When it comes to winning prestigious industry awards, RVCA did it again by bringing home the Surf Industry Manufacturers Association "Men's Brand of the Year" for a third year in a row. RVCA does this by staying true to the balance of opposites idea and designing high-quality product that is accessible to everyone.





Kustom is a footwear brand focusing on the casual beach and surf lifestyle market. Kustom's mission is to become one of the world's most compelling global action sports brands, and the leading footwear brand in the global surf market.

Through the 2012-13 financial year, Kustom delivered strong financial results and performed particularly well in its home market of Australia. The Kustom Kramer shoe continued to perform well, consolidating its position as one of the best retailing styles in the Australian action sports retail market. The brand performance was acknowledged within the industry, and for the second year running was a finalist in the Footwear Brand of the Year category in the Australian Surf Industry Awards hosted by the Australian Surf Retailers Association.

Kustom's marketing initiatives continued to focus on youth and innovation in line with its goal to produce surfing so revolutionary and inspired that it breaks all the rules, forever changing the face of surfing as we know it.

Spearheading this was the annual Kustom Airstrike surfing competition which seeks to capture new and innovative aerial surfing manoeuvres.

This year's event was viewed by a global online audience of over 1 million viewers, with the US\$50,000 winner-take-all bounty being collected by Hawaii's John John Florence.

Kustom also continued its ongoing support of 2012 ASP World Champion Joel Parkinson, and one of the world's most innovative free surfers, Chris 'Chippa' Wilson. Kustom also added to its athlete roster Brent Dorrington, and Sage Erickson. Sage's relationship with Kustom extends to a signature line of fashion boots, which will be released in Winter 14.

[www.kustomfootwear.com](http://www.kustomfootwear.com)







VonZipper is a fashion forward brand centered around the alternative mindset with a focus on the eyewear, accessory and premium apparel market. VZ had an outstanding year, with increased market presence across all business categories. Investments in the motocross and snow divisions, with both category and team manager hires began to show dividends with heightened brand penetration and exposure in these markets.

VonZipper led the eyewear category with the release of several new frame styles and collections. Highlights included the launch of the "Freethinkers Conspiracy Guild" a forward-thinking, backwards-compatible collection of four frames dedicated to all things "old timey". The broader VonZipper offering was supported by eight new frames in 2012-13 financial year, highlighted by the instantly successful "Lomax" unisex frame and supported by four new womens specific styles led by the "Castaway". Colour initiatives and collaborations played a big role in VZ's successful year with their "FrostByte", "SpaceGlaze", "BattleStations" and "Sea Shepard" range bringing colour and freshness to their eyewear retailers. "DotDash", VonZipper's price sensitive, fast

fashion offering experienced incredible sell through and continued it's high speed climb. VZ's lifestyle and personality-focused imagery and marketing based around its sponsored athletes and high profile personalities continued to differentiate the brand. With a World Champion surfer, a gold medal freestyler in X-Games Motocross, Multiple NASCAR wins, a rider of the year in Wakeboarding and a snowboarder winning the coveted video part of the year, VonZipper's exposure reaches several different sport categories and has never been higher. Similar success is shared on a social networking and public relations front, which speaks both directly to our loyal followers as well the masses.

On the charitable front, VonZipper continued to give back to their community by supporting Boarding For Breast Cancer, helping raise awareness and monies to their cause through product development and donating the proceeds from sales, continued support of the Surfrider Foundation and by maintaining membership and board level positions on the Surf Industry Manufacturers Association. In the eyewear market, VonZipper rides alone.

[www.vonzipper.com](http://www.vonzipper.com)





Xcel comes off a strong fiscal year in which it exceeded operational goals while strengthening its global product and marketing initiatives. The specialty wetsuit manufacturer continued to grow its core surf business domestically; despite regional challenges in Europe and Australia, other regions met overall performance objectives. The company focused on working capital, inventory turns, and cleaner distribution models with positive end results. Xcel's USA division achieved a 75.5% fiscal year-over-year increase in EBITDA, a 40% reduction in working capital, and significantly higher stock turns. The brand's domestic production business, in which it has designed and manufactured product for military customers for over thirty years, posted its best-ever fiscal year performance.

Also in the USA, Xcel re-launched its website and added an ecommerce platform for direct-to-consumer sales, positioning the brand to capitalise and rapidly build upon its excellent first year results. Xcel product continued to set new industry standards in technical innovation. The brand leveraged its strong surf wetsuit equity into a new top-of-the-line Drylock Power Seam stitch-free fullsuit series. In the USA, its Drylock surf boot was honoured by industry

peers and specialty retailers as the Surf Industry Manufacturers Association (SIMA) "Hardgoods Accessory Product of the Year." Additionally, Xcel's Infiniti Comp surf fullsuit series was voted "Wetsuit of the Year" by Australia's Tracks magazine. Through new advertising campaigns and promotional initiatives, Xcel redirected its marketing strategy with a more diversified multi-media investment while retaining its focus on a targeted endorsement roster and regional event outreach.

The Xcel surf team was bolstered with the addition of Kalani David, widely regarded as one of the most innovative and progressive surfers of his generation. The young Hawaiian prodigy posted standout performances at both the scholastic and junior professional levels, with event wins at the NSSA Nationals and 2013 Pipeline Junior Pro.

Xcel continued its partnership with the University of Hawaii Cancer Center (UHCC) to promote skin cancer awareness in and beyond Hawaii. Together with the UHCC, the brand presented the inaugural Xcel Race Against Skin Cancer, a stand-up paddle race supporting awareness and prevention along Oahu's Waikiki shoreline.



The successful first-time event was underwritten by the Xcel Skin Cancer Prevention Fund, managed by the UHCC and to which Xcel has donated over USD60,000 to date.

The brand continued its commitment to socially-responsible initiatives at

its solar-powered Hawaii factory and administrative headquarters, as well as through its ongoing cleaner manufacturing practices and use of sustainable materials throughout its surf, dive, and sun-protective product lines.

[www.xcelwetsuits.com](http://www.xcelwetsuits.com)



Since establishment in 1996, the Honolua Surf Company has carried on a tradition of providing innovative, quality products which enhance enjoyment of the casual lifestyles associated with the beach, surf sports, and the islands. They continue to be the premiere waterman lifestyle store throughout all the Hawaiian Islands.

Honolua Surf Company is a shop where waterman can fulfill their needs. At the same time it provides all their customers a chance to experience the "Honolua" lifestyle, if only briefly, through the products offered, the staff, and the stores themselves. As an authentic core ocean lifestyle brand, Honolua continues to develop exclusive products available only at their retail and e-commerce locations. The merchandise is offered in surroundings which depict the people, the sports, and lifestyle of those who enjoy an active life centered on and around the ocean.

Honolua Surf Company is very supportive of the Hawaiian Island culture through its contributions to many community events including surf contests, school surf team competitions, paddle clubs and swim clubs and through its highly visible surf team. In 2013, Honolua sponsored the SUP Ultimate Showdown with Duke's Ocean Festival, with Honolua rider Bonga Perkins a key competitor. The annual Legends of the Bay surf contest is another way Honolua gives back to the community each year. This, their signature event, gives Maui's well known surfing talents as well as the up and coming young surfers a chance at a great contest experience. The past 2012- 2013 fiscal year has seen Honolua consolidating locations. Currently comprising 17 stores (including 1 e-commerce) Honolua ended the fiscal year with a positive comp sales growth.

[www.honoluasurf.com](http://www.honoluasurf.com)









Sector 9 is proudly celebrating 20 years of craftsmanship, innovation, and good times. We have combined those very ingredients to create our new marketing campaign titled 'We Make Fun.' This represents the core of Sector 9's identity, expressing both our quality manufacturing, as well as the sensation one gets from riding our handcrafted boards. While Sector 9 has no set demographic, it does have strong ties to surf, skate, wake, and snowboard cultures. With that in mind, our Alternative Energy Vehicles (AEV) campaign remains relevant to board riders seeking "greener" forms of transportation. Today the brand is still far and away the market leader in longboard skateboards. Domestic retailers, both big and small, continue to see exceptional performance from our offerings with an ever-growing, loyal customer base. Segmentation

of key categories gives us further opportunities to expand upon our past successes. Sector 9 is proud to include a growing line of safety equipment among those key categories. Slide gloves, helmets, knee & elbow pads, as well as padded under garments are a few of the categories that we have continued to notice significant growth within. We continue to focus on International regions to provide additional growth in each of our product categories as well. Canada, Brazil, and South Africa are currently the shining stars among the 77 nations to which we supply our goods. While there are numerous companies all vying for a piece of the market that we created, our integrity, innovation and competitive spirit will keep us ahead of the game for the next 20 years to come.

[www.sector9.com](http://www.sector9.com)



Palmers is a heritage surf wax and accessories brand that has focused its offer, catering exclusively for active boardsports participants. The brand, established in Australia in 1988 and sold in locations including New Zealand, South Africa, Japan, Europe and Brazil, has maintained its place as a leading supplier to hardware-focused surf retailers. Innovation has been a focus with research and testing undertaken on a new wax formula to improve traction. The result is the development of a super-sticky new wax that was released in the 2012-13 financial year and has received an amazing response from the world's best surfers to punters. Aside from wax, Palmers also focused on the development of its range of deck grip, surf leashes and board covers. The accessories are each focused on the value end of the market, completing the broader Group's extensive surf hardware offer. The brand is focusing on its support of junior events and surfers, supporting this year's Occy's Grom Comp, as well as a number of promising junior surfers. Heath Joske continues to represent the brand on his travels competing on the ASP tour.

[www.palmerssurf.com.au](http://www.palmerssurf.com.au)



# **PALMERS**

**ULTRA STICKY**

## **The Best Grip Around**

**AUSTRALIA'S LEADING GRIP  
"DO NOT EAT"**

**WARM WATER SURF WAX**

**NET WT.  
90g**



**Satisfaction Guaranteed**

**ULTRA STICKY**

## COMPANY OWNED RETAIL STORES

The Billabong Group comprises both wholesale and retail operations with revenue from the two business streams evenly divided.

As at 31 December 2011 company-owned retail outlets peaked at 677 stores globally.

A strategy to rationalise and exit under-performing stores commenced the following year. As of 30 June 2013 the Company had 562 retail doors.

Of those total store numbers, 249 were based in Australasia, 200 in the Americas and 113 in Europe.

As the formal closure programme comes to a conclusion the Group's focus has switched to creating the best value from our extensive footprint of retail banners.

Group Executive Global Retail Colin Haggerty has begun implementing a three year retail improvement plan. Among the key strategies are;

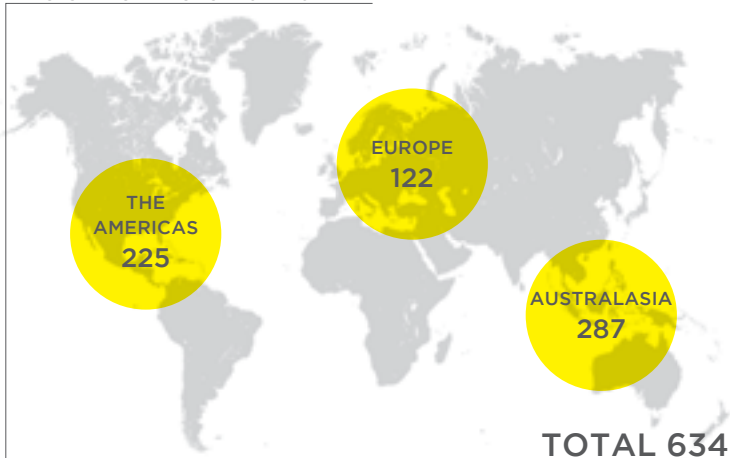
- An improvement and turnaround plan for loss making stores.
- Re-negotiation of existing lease base.
- Reducing aged inventory.
- Reviewing customer insight data to understand and implement the best marketing strategies on a country by country basis.

- Reduction of stock going to non-Group owned close-out channels and use of pop-up stores where appropriate.

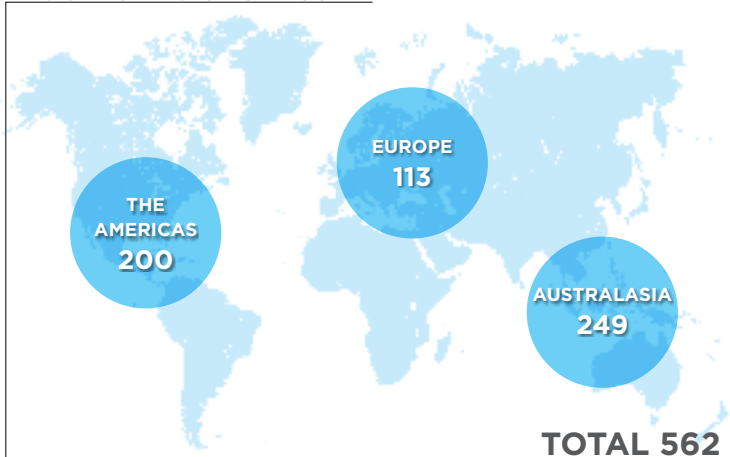
Recent improvements in business practices, specifically around inventory clearance and promotions are expected to result in margin improvements. Based upon the improvement seen in recent trading in the United States there is also reason to be optimistic as to the early impact these changes are having as they begin to be rolled out on a global basis.



THE STORE NUMBERS FOR 2011 - 2012 ARE:



THE STORE NUMBERS FOR 2012 - 2013 ARE:



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COMPUTERSHARE INVESTOR  
SERVICES PTY LIMITED

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Facsimile: +61 3 9473 2500

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### **STOCK EXCHANGE LISTING**

Billabong International Limited  
shares are listed on the Australian  
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Ticker: BBG.

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