JB HI-FI

ANNUAL REPORT

2016

Financial Summary

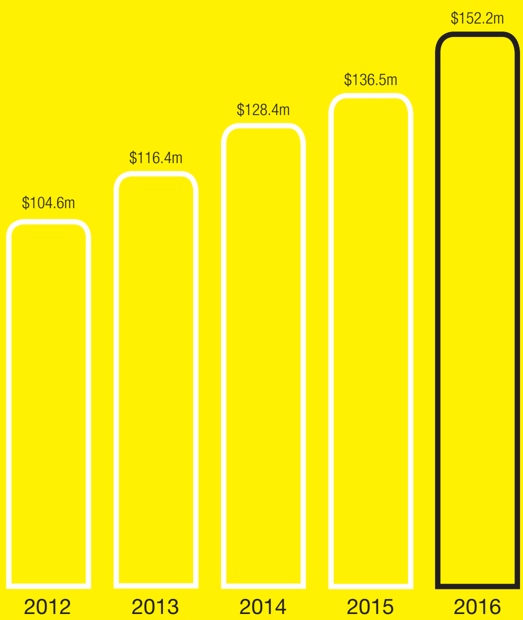
FINANCIAL PERFORMANCE

	2012	2013	2014	2015	2016	Growth
Sales	$3.13b	$3.31b	$3.48b	$3.65b	$3.95b	8.3%
EBIT	$161.5m	$177.8m	$191.1m	$200.9m	$221.2m	10.1%
NPAT(i)	$104.6m	$116.4m	$128.4m	$136.5m	$152.2m	11.5%
Earnings per share	105.9cps	117.7cps	128.4cps	137.9cps	153.8cps	11.5%
Total dividend - fully franked	65.0cps	72.0cps	84.0cps	90.0cps	100.0cps	11.1%

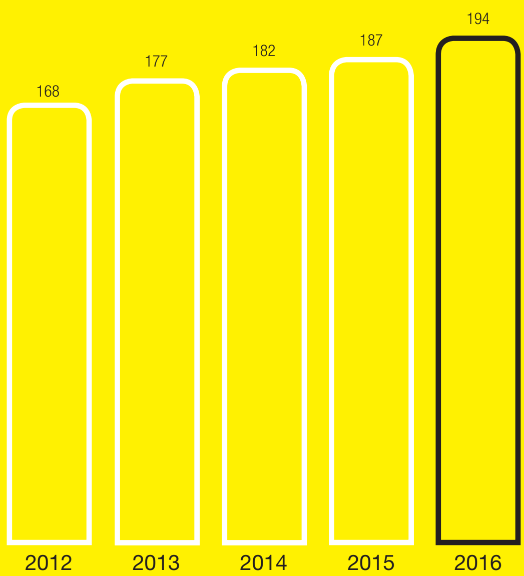
Sales $3.95b

EBIT $221.2m

NPAT(i) $152.2m



Stores



(i) Profit attributable to the owners of JB Hi-Fi Limited, excludes non-controlling interests

Chairman's and Chief Executive Officer's Report

Dear fellow shareholder,

It is very pleasing to report that the year ended 30 June 2016 was another record year for JB Hi-Fi Limited with sales, profits and dividends all up on the prior year. This result was driven by a combination of sales growth, solid gross margins and our low cost of doing business, underpinned by our continued emphasis on customer service.

Overview

JB Hi-Fi Limited achieved sales of $3.95 billion in FY16, with total sales growth of 8.3% and comparable sales growth of 5.4%. Sales momentum was solid throughout the year. Particularly pleasing was how we cycled strong June sales from the prior year, with strong sales driven by tax time buying.

Net profit after tax was up 11.5% to $152.2m, earnings per share was up 11.5% to 153.8 cents per share and the total dividend for FY16 was up 10 cents per share on the prior year to 100 cents per share.

Gross profit increased 8.4%, with gross margin improving three basis points to 21.9%, which was pleasing given the change in sales mix.

Total operating costs remained well controlled and were in line with our expectations. We maintained our low CODB through continued focus on productivity and minimising indirect expenditure. Our low cost of doing business, at 15.2%, continues to be a competitive advantage and remains lower than our major listed competitors. Store wages remained well controlled during FY16 as we continued to deliver the high standard of customer service that JB Hi-Fi is known for.

The balance sheet continues to grow in strength with relatively low financial and operating leverage, evidenced by our solid fixed charges cover of 3.5 times, gearing of 0.4 and interest cover of 57.3 times.

JB Hi-Fi is a discount retailer with the ability to consistently offer everyday low prices through the scale of our operations, high stock turnover and low cost of doing business. We offer one of the largest ranges of home entertainment, consumer electronic and home appliances at discounted prices, positioned to appeal to all customers.

JB Hi-Fi has the ability to bring brands to life and create engagement in categories. We have the reputation for taking the deal, price leadership and being first to market with the latest technology. We have a high level of loyalty and trust from our customers and have been recognised in the top three in the Australian Market Research ("AMR") Corporate Reputation Index over the past five years, and the number one company in 2016.

JB Hi-Fi is constantly innovating to ensure that it remains current and relevant to its customers. We have a culture of embracing change, which is seen as a "natural" part of the business.

Our stores have relatively high sales per square metre, when compared to many local competitors and comparable international businesses. Our stores are located in high foot traffic locations which allow both convenient access for customers and maximise impulse traffic.

Our motivated, passionate and knowledgeable team members continue to be one of our most important assets. A busy and enjoyable working environment means that JB Hi-Fi continues to attract and retain high calibre staff.

Business Update

We had 194 stores in Australia and New Zealand at 30 June 2016, with nine new stores opened during the year and two stores closed. During FY17 we expect to open seven new stores and we continue to review opportunities for our store rollout beyond 214 stores across Australia and New Zealand.

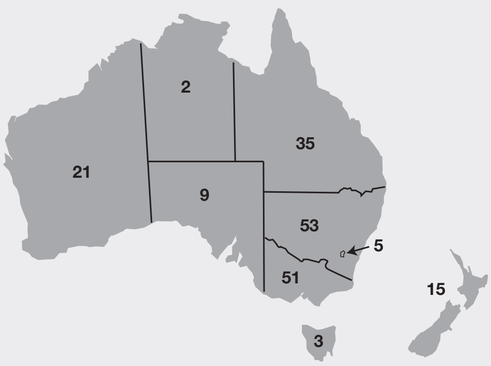
As at 30 June 2016 we had 59 JB Hi-Fi HOME stores, with five new JB Hi-Fi HOME stores opened and 13 JB Hi-Fi stores converted to JB Hi-Fi HOME during FY16. The Company is currently targeting a total of 75 JB Hi-Fi HOME stores across Australia and New Zealand. Each new JB Hi-Fi HOME store contributes to growing our customer awareness, market share and supplier support. This, combined with our ongoing investment in store wages, staff training and supply chain, places us in a good position as we continue with our expansion.

The home appliances market in Australia is circa $4.6 billion, larger than many of the other categories JB Hi-Fi operates in, and presents a significant opportunity for us as we leverage the strength and trust in the JB Hi-Fi brand. By leveraging our strong heritage in innovation and technology, we see our continued expansion into home appliances and ultimately the connected home as a significant opportunity for JB Hi-Fi in the future.

In addition to our HOME store roll-out, we continue to introduce small appliances into existing JB Hi-Fi stores. We see the rollout of small appliances to our existing store network as a natural progression of our proven home appliances strategy. These stores will have their layout reconfigured and will remain branded as JB Hi-Fi. We had 43 JB Hi-Fi stores with small appliances at the end of FY16, including six in New Zealand. In the long term, we expect most stores to carry appliances. The range, either small appliances only or a full HOME offer, will be tailored to suit each specific store.

During the year, we signed a 6.5 year cooperation agreement with Heinemann Tax and Duty Free to be the exclusive technology partner at Sydney International Airport. We commenced trading on 1 April 2016 and results to date are pleasing and in line with expectations. This store provides an exciting opportunity to trial and extend the JB Hi-Fi model outside of our traditional store format.

We continue to both review our existing store portfolio and to apply stringent store selection criteria to potential new sites to ensure that they offer JB Hi-Fi a high level of foot traffic and convenient access for customers. This considered approach to our existing and new store locations means stores should continue to deliver comfortably in excess of their cost of capital.



JB Hi-Fi Solutions recorded double digit sales and earnings growth in FY16 and remains on track to deliver its longer term aspirational sales target of approximately $500 million per annum, though both organic and strategic acquisitions. JB Hi-Fi Solutions is a key driver of our future growth. The combination of our product and service offering, along with our extensive store distribution network, continues to resonate with our clients.

Online sales continue to grow, up 35.8% in FY16, and represent approximately 3.0% of total sales (FY15: 2.4%). Unique visitors to JB Hi-Fi's websites during FY16 averaged 1.3 million per week. We continue to leverage the benefits of a strong online presence combined with our convenient store locations and remain focused on building a great customer experience online. We are pleased with the progress made in FY16.

We have developed a low cost, fit-for-purpose supply chain and logistics solution, with facilities operating in Melbourne, Sydney, Brisbane, Perth, Newcastle and Auckland. We are currently investigating an additional facility in Adelaide. In other states and regional centres where stand-alone facilities are not currently economic, the HOME rollout allows for expanded back-of-house storage areas.

Customer feedback regarding their delivery experience with us has been very positive and we continue to work closely with our supply chain and logistics partners to further refine our offer.

Executive Appointments and Responsibilities

In May 2016 James Saretta joined the executive team as Strategy and Digital Director with his role including strategic responsibility for Online. Cameron Trainor has taken on responsibility for Marketing in addition to his existing Merchandise responsibilities and Tim Carter has taken on responsibility for Supply Chain in addition to the JB Hi-Fi Solutions business.

The Good Guys Sale Process

In August 2016, we announced that we continue to participate in The Good Guys sale process. JB Hi-Fi has made no decision and nor has it entered into any agreement with respect to the acquisition of The Good Guys. We understand that The Good Guys are looking at a range of options including an IPO on the ASX. JB Hi-Fi evaluates all possible opportunities against a range of factors and would only pursue an acquisition if it made compelling financial sense for our shareholders.

Board Changes

It is Gary Levin's intention to retire from the Board with effect from the conclusion of the Company's 2016 Annual General Meeting. Gary has been a director of JB Hi-Fi since listing in 2003 and for the three years prior to that, and is also a member of the Remuneration Committee and Audit and Risk Management Committee. Gary has a deep understanding of the Company and its business, and has made a great contribution to JB Hi-Fi over the past 16 years. The Board thanks Gary for his valuable contribution and service to JB Hi-Fi as an independent non-executive director.

In June 2016, we announced the appointment of Stephen Goddard as non-executive director with effect from 25 August 2016. Stephen has more than 30 years' retail experience having held senior executive positions with some of Australia's best known retailers. These include Finance Director and Operations Director for David Jones, founding Managing Director of Officeworks, and various senior management roles with Myer. Stephen is currently a non-executive director of SurfStitch Group Ltd and will become a non-executive director of GWA Group Limited in October 2016. We are delighted to welcome Stephen to the Board, he brings great experience across a range of areas including finance, strategic planning, merchandise, store operations, supply chain and property, and we are very much looking forward to working with him.

Board and Management Approach

The Board recognises the importance of governance, environmental and social matters to our shareholders, suppliers and customers and continually reviews and monitors developments in corporate governance which are relevant to JB Hi-Fi. The Board is committed to ensuring that JB Hi-Fi's business is conducted ethically and in accordance with high standards of corporate governance.

The relationship between the Board and management is strong and remains engaging and constructive. It continues to be an integral part of the Board's strategy to encourage innovation and diversification with new products, technology, merchandising formats, advertising and property locations in a controlled and responsible manner. This approach provides opportunities to increase revenue, margin and productivity.

The Board firmly believes that equity participation through JB Hi-Fi's employee option plan maintains a strong alignment with shareholders and is a critical tool in attracting new management, retaining existing management and rewarding performance.

Helping Hands

JB Hi-Fi's workplace giving program, established in 2008 and known as Helping Hands, enables JB Hi-Fi directors, executives and employees to donate to registered charitable organisations. JB Hi-Fi matches dollar for dollar regular employee contributions through its payroll system, effectively doubling the financial benefit to our community partners. Workplace giving programs have proved to be a very effective way for employers and employees to join together to support the community. Each week nearly 5,000 or 67% of our staff give to the program and, as recognised by the Australian Charities Fund, makes it one of the most successful workplace giving programs in Australia and New Zealand. Through the combined giving of JB Hi-Fi and its employees, we believe we make a real difference to the charities in the program. In June this year we achieved a very encouraging milestone, having raised $10 million in Australia for our charity partners since Helping Hands was launched. In total, including one-off campaigns since we launched Helping Hands, we have raised $10.8 million for our charity partners across Australia and New Zealand.

Capital Management

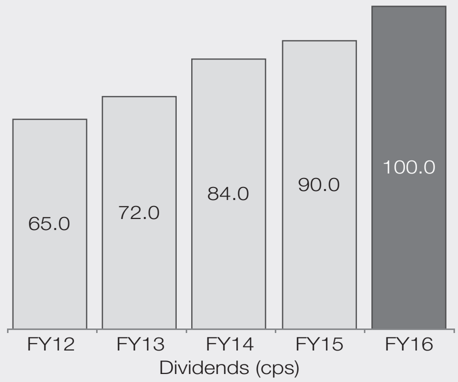
JB Hi-Fi regularly reviews all aspects of its capital structure with a focus on maximising returns to shareholders. Continued solid earnings growth and prudent management of our balance sheet, including relatively low gearing, enables us to consider various capital management initiatives.

In the first half of FY16 we completed an on-market share buy-back of 0.7 million ordinary shares at a cost of $13.2 million in order to offset the dilutionary impact of shares issued to employees under JB Hi-Fi's share option plans.

We will continue with our on-market buy-back program in FY17 with a buy-back of a maximum of 0.4 million ordinary shares.

The Board has declared a final dividend of 37 cents per share fully franked, bringing the total dividend for FY16 to 100 cents per share, up 10 cents per share on the prior year. The Board believes that our dividend payout ratio of 65% appropriately balances the distribution of profit to shareholders and the reinvestment of earnings for future growth.

FY16 dividend up 10 cps



Outlook

We continue to invest in our store network, online offering and Solutions business. These initiatives, coupled with a strong promotional plan, will position us well for growth in FY17.

In FY17 we expect:

- to open seven new stores;
- to convert five existing stores to JB Hi-Fi HOME; and
- total sales to be circa $4.25 billion.

The key success drivers of JB Hi-Fi continue to be having the biggest range and the lowest prices, supported by a talented and enthusiastic team. Your Board and management team remain committed to maintaining this.

We look forward to another exciting and successful year in FY17.

Greg Richards
Chairman

Richard Murray
Chief Executive Officer

Melbourne,
29 August 2016

Annual Report

for the financial year ended **30 June 2016**

JB Hi-Fi Limited ("the Company" or "JB Hi-Fi") recognises the importance of Governance, Environmental and Social matters to our shareholders, suppliers and customers. The Board continually reviews and monitors developments in corporate governance which are relevant to the Group (being the consolidated entity consisting of the Company and the entities it controls).

CORPORATE GOVERNANCE STATEMENT

The directors and management of JB Hi-Fi are committed to ensuring that the Company's business is conducted ethically and in accordance with high standards of corporate governance.

The Board believes that JB Hi-Fi's policies and practices comply in all material respects with the 3rd edition of the ASX Corporate Governance Council Principles and Recommendations (the "ASX Recommendations"). The Board believes that, during the 2016 financial year, it has been compliant with the spirit of the principles contained in the ASX Recommendations.

This Corporate Governance Statement has been approved by the Board and is effective as at 15 August 2016.

THE BOARD

Role

The primary role of the Board is to protect and enhance long-term shareholder value. The Board is accountable to shareholders for the performance of the Company and it directs and monitors the business and affairs of the Company on behalf of shareholders.

The Board's responsibilities include the corporate governance of the Company, overseeing the business and affairs of the Company, communicating with the Company's shareholders and the community, evaluating the performance of executives, ensuring that appropriate procedures are in place so that the Company's business is conducted in an honest, open and ethical manner and the establishment of a formal and transparent procedure for the selection, appointment and review of directors.

The Chief Executive Officer, who is accountable to the Board, is responsible for managing, directing and promoting the profitable operation and development of JB Hi-Fi.

A copy of the Board Charter can be found on the Company's website at www.jbhifi.com.au via the "Investors" and "Governance" sections.

Composition / Selection and appointment of directors

The Board seeks to ensure that the combination of its members provides an appropriate range of experience, skills, diversity, knowledge and perspective to enable it to carry out its obligations and responsibilities.

The Board believes that having a range of different skills, backgrounds, experience and gender ensures a diversity of viewpoints which facilitate effective governance and decision making.

The Company believes that skills and experience in the areas listed below are desirable for its Board to perform its role effectively. The Board considers that its current composition possesses an effective blend of these skills and experience which enables it and its Committees to effectively govern the business, operate effectively and add value in the context of the Company's strategy.

- Executive/Management experience
- Retail expertise and experience
- Operational Management expertise and experience
- Financial expertise
- Property expertise
- Mergers & Acquisitions expertise and experience
- Governance expertise and experience
- Other board experience
- Experience in setting executive remuneration
- Risk Management expertise and experience

JB Hi-Fi maintains a majority of non-executive directors on its Board. The Board currently comprises six directors, being five non-executive directors, including the Chairman, and one executive director, being the Chief Executive Officer. An additional non-executive director will join the Board with effect from 25 August 2016. The Company has written agreements with each director setting out the terms of his/her appointment. Apart from the Chief Executive Officer, directors are subject to shareholder re-election by rotation at least every three years. The Company provides shareholders with all material information in its possession relevant to the election or re-election of a director.

A copy of the Company's Board Composition & Succession Policy, which includes the procedure for the selection and appointment of directors, can be found on the Company's website at www.jbhifi.com.au via the "Investors" and "Governance" sections. The Board will undertake appropriate checks before appointing any person or putting forward to shareholders a candidate for election as a director.

Details of the directors as at the date of this report, including further information about their experience, expertise and term of office, are set out in the Directors' Report.

Independence

JB Hi-Fi considers that each of its directors (including the Chairman) is independent with the exception of Richard Murray, the Chief Executive Officer.

The Board regards directors as independent directors if they: do not have a material relationship with the Company other than solely as a result of being a director; are independent of management; and do not have any business or other relationship that could compromise the independent exercise of their judgement and their ability to act in the best interests of the Company. The independence of each director is considered on a case-by-case basis.

Gary Levin has been a non-executive director of the Company for over 10 years and has a deep understanding of the Company and its business. The Board has considered Gary's independence, including in view of his length of tenure as a director of the Company. The Board is of the opinion that, notwithstanding his length of service, Gary remains independent and continues to provide valuable input to the Board. The Board does not believe that Gary has formed associations with management (or other stakeholders) that might interfere with, or compromise, his ability to exercise independent, unfettered judgement or act in the best interests of the Company. It is Gary's intention to retire from the Board with effect from the conclusion of the Company's 2016 Annual General Meeting.

Richard Uechtritz was Chief Executive Officer of the Company between July 2000 and May 2010 and a consultant to the Company from May 2010 to November 2013. Given the nature of the consultancy arrangements (and that Richard was not provided with remuneration for that role but was, instead, allowed to retain options granted to him whilst he was CEO) and the passage of time, the Board is of the opinion that Richard is an independent director, and that neither these previous roles, nor his relationship with current management, compromises his ability to exercise independent, unfettered judgement or act in the best interests of the Company.

Beth Laughton is a non-executive director and member of the audit, compliance & risk management committee of GPT Funds Management Limited ("GPT"), the responsible entity for the GPT Wholesale Shopping Centre Fund. Wai Tang is a non-executive director and member of the audit committee and the risk & compliance committee of Vicinity Limited. The Board notes that each of the GPT Wholesale Shopping Centre Fund and Vicinity Limited have ownership interests in a number of shopping centres in which the Company currently leases stores. The Board is of the opinion that Beth and Wai are independent directors on the basis that individual leasing arrangements at the Company, GPT and Vicinity Limited are generally determined at a managerial level rather than Board level. In addition, the Company's internal protocols provide that Beth and Wai would be excluded from any discussion and decision making where any conflict of interest arises between their roles as a director of the Company and of GPT/Vicinity Limited.

Conflict of Interest

If a conflict of interest arises, the director concerned does not receive the relevant Board papers, is not present at the meeting whilst the item is considered and takes no part in decision making. Directors must keep the Board advised, on an ongoing basis, of any interests that could potentially conflict with those of the Company. Directors are required to promptly disclose to the Board interests in contracts, other directorships or offices held, possible related party transactions and any other material personal interests in a matter relating to the Company's affairs.

Board meetings

The Board meets regularly, dependent on business requirements. Prior to any meeting, the directors receive all necessary Board papers. As well as holding regular Board meetings, the Board also meets to comprehensively review business plans and the strategy of the Group.

Access to information and independent advice

Each director has the right of access to all relevant Company information and to the Company's executives. Subject to prior consultation with the Chairman, each director may seek independent professional advice at the Company's expense.

Professional Development of Directors

The Company recognises the need for its directors to develop and maintain the skills and knowledge needed to perform their roles as directors effectively. The Company provides the directors with briefings and advice on developments in both the law and current practice in areas relevant to the Company and their role as directors (including, for example, corporate governance, accounting and remuneration). The Company does this using both the Company's external advisors (including the Company's auditors and legal and remuneration advisors) and management (including the Chief Financial Officer and the Company Secretary & General Counsel). Individual directors also take advantage of professional development opportunities provided by third parties such as the Australian Institute of Company Directors and major accounting and legal firms.

The Company has an induction program for new directors.

BOARD COMMITTEES

Details of the Committees established by the Board are set out below.

Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee.

The Audit and Risk Management Committee is charged primarily with assisting the Board in its:

- oversight of the reliability and integrity of the Company's financial management, financial reporting and disclosure, and related non-financial reporting and disclosure practices;
- oversight of the independence, performance, appointment and removal of the external auditor; and
- review of the Company's policies on risk oversight and management, and in discharging its responsibility to satisfy itself that an adequate and sound system of risk management and internal control has been implemented to manage the material risks affecting the Company's business, including compliance with all applicable laws.

A copy of the Audit and Risk Management Committee Charter can be found on the Company's website at www.jbhifi.com.au via the "Investors" and "Governance" sections.

During the 2016 financial year, the Audit and Risk Management Committee comprised the following non-executive directors, all of whom were independent with relevant financial, commercial and risk management experience, including an independent chair who is not the Chair of the Board:

- Beth Laughton: Ongoing member and Chair of Committee;
- Gary Levin: Ongoing member of Committee;
- Wai Tang: Ongoing member of Committee since 14 September 2015; and
- James King: Member of the Committee until 29 October 2015.

Details of the background and experience of each of these non-executive directors are outlined in the Directors' Report.

The Audit and Risk Management Committee meets regularly. Details of the meetings held and members' attendance during the 2016 financial year are listed in the Directors' Report. Directors who are not members of the Audit and Risk Management Committee may attend any Audit and Risk Management Committee meeting.

Remuneration Committee

The Board has established a Remuneration Committee.

The Remuneration Committee is charged primarily with reviewing and making recommendations to the Board regarding the remuneration of executive officers and non-executive directors, and the policies for remuneration and compensation programs of the Company generally.

A copy of the Remuneration Committee Charter can be found on the Company's website at www.jbhifi.com.au via the "Investors" and "Governance" sections.

During the 2016 financial year, the Remuneration Committee comprised the following directors, each of whom are considered by the Company to be independent:

- Greg Richards: Ongoing member and Chair of Committee;
- Gary Levin: Ongoing member of Committee;
- Beth Laughton: Ongoing member of Committee since 29 October 2015; and
- James King: Member of the Committee until 29 October 2015.

The Remuneration Committee meets as required. Details of the meetings held and members' attendance during the 2016 financial year are listed in the Directors' Report. Directors who are not members of the Remuneration Committee may attend a Remuneration Committee meeting at the invitation of the Chairman when considered appropriate.

Nominations Committee

The Board has decided not to establish a Nominations Committee. Rather the Board itself is responsible for:

- Board succession planning and ensuring that the Board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively (including the process for recruiting new directors);
- induction programs for new directors;
- establishing formal and transparent procedures for the selection and appointment of new directors to the Board;
- selecting, appointing and regularly evaluating the performance of, and planning for the succession of, the Chief Executive Officer; and
- developing and instituting internal procedures for evaluating Board performance and the performance of individual directors and Board Committees.

A copy of the Board Charter and the Board Composition & Succession Policy can be found on the Company's website at www.jbhifi.com.au via the "Investors" and "Governance" sections.

COMPANY SECRETARY

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

CODE OF CONDUCT

JB Hi-Fi acknowledges the need for directors, executives and employees to observe the highest ethical standards of corporate behaviour. JB Hi-Fi has adopted a Code of Conduct to provide directors, executives and employees with guidance on what the Company deems to be acceptable behaviour. The key elements of the Code are:

As a company: (a) respecting every employee's dignity, rights and freedoms; (b) providing a working environment that is safe, challenging and rewarding; (c) recognising the achievements of each of our employees; (d) respecting customers', suppliers' and employees' personal and sensitive information; (e) reinforcing JB Hi-Fi's commitment to the highest standards in business and professional ethics; and (f) obeying the law.

As employees: (a) treating customers, the public and fellow employees with honesty, courtesy and respect; (b) respecting and safeguarding the property of customers, JB Hi-Fi and fellow workers; (c) maintaining confidentiality of all customers', JB Hi-Fi's and other parties' information gained through our work; (d) performing our duties, as best we can, taking into account our skills, experience, qualifications and position; (e) doing our jobs in a safe, responsible and effective manner; (f) ensuring our personal business and financial interests do not conflict with our duty to JB Hi-Fi; (g) working within JB Hi-Fi's policies and rules; and (h) obeying the law.

The Company has developed appropriate policies and guidelines to assist employees in applying the Code in practice. A copy of the Code of Conduct can be found on the Company's website at www.jbhifi.com.au via the "Investors" and "Governance" sections.

DIVERSITY

JB Hi-Fi recognises the importance of diversity and values the competitive advantage that is gained from a diverse range of skills, backgrounds, experience and gender at all levels of the organisation. The Company has a Diversity Policy which is available on the Company's website at www.jbhifi.com.au via the "Investors" and "Governance" sections.

The Diversity Policy states that JB Hi-Fi appreciates that the different perspectives arising from diversity encourage an innovative, responsive, productive and competitive business and create value for our customers and shareholders. JB Hi-Fi's objective is that Board appointments, employment and advancement decisions are based on merit, qualifications and competence, and that employment opportunities shall not be influenced, affected or limited by discrimination. JB Hi-Fi believes that no barrier should therefore exist that prevents this from occurring.

Gender diversity

As at 30 June 2016 the proportion of women engaged by JB Hi-Fi was as follows:

- Board: 33% being 2 of 6 directors (2015: 17%)
- Senior Management/Executive (excluding the executive director/CEO): 12% being 3 of 25 employees (2015: 8%). For these purposes, Senior Management/Executive means:
    - the 6 executives listed on page 29 of this Report who were employed on 30 June 2016, excluding the executive director/CEO; and
    - the 19 next most senior managers of the Company, each of whom reports to one of these executives or the executive director.
- Group: 39.5% being 3,083 of 7,814 employees (2015: 39%).

In March 2012 the Board set measurable objectives in relation to gender diversity. These diversity objectives and progress towards achieving them are set out in the table below:

Objective set in March 2012	*June 2016*	*June 2015*	*June 2014*	*June 2013*	*June 2012*
To improve the percentage of female to male commissioned store sales staff over each of the next 3 years	23%	22%	21%	21%	21%
To improve the percentage of female to male store managers over the next 3 years	12%	10%	10%	11%	11%
To improve the percentage of female to male regional/area managers over the next 3 years	9%	9%	0%	0%	0%
To increase the percentage of female senior managers over the next 3 years	12%	8%	4%	5%	9.5%

Since setting these objectives the Company has taken the following actions:

- developed systems to enable regular reporting and assessment of progress towards the adopted gender diversity objectives;
- regularly reviewed employee pay to consider whether any gender based disparity exists;
- developed part time and flexible work practices, with specific focus on return to work from maternity leave;
- reorganised the managerial structure within stores, aimed at achieving greater female representation at management level over the medium term;
- ensured that female participation in leadership development programs is at least equivalent to the proportion of female employees at that level in the organisation;

- appointed its first two female area managers; and
- conducted a Group-wide employee survey with specific focus on equal opportunity and diversity.

The Company is currently undertaking a review of its gender diversity objectives and the plans for achieving them and has engaged a diversity consultant to assist with this process. The Company will report further on progress in this area in the 2017 Annual Report.

SHAREHOLDINGS OF DIRECTORS AND EMPLOYEES

Directors' current shareholdings are detailed in the Directors' Report and are updated by notification to the ASX as required. The Board has approved and adopted a Securities Trading Policy setting out the rules and procedures applying to directors, officers and employees dealing in securities.

Subject to certain specific and limited exceptions, directors and key employees may only trade in JB Hi-Fi shares, and any other JB Hi-Fi securities, during designated Trading Windows. These four week Trading Windows follow the release of JB Hi-Fi's Final Results (August/September), Interim Results (February/March) and the Annual General Meeting (October/November). Directors and executives are required to obtain the Chairman's consent in advance of any such trading and any transaction conducted by directors in shares of the Company is notified to the ASX.

A copy of the Securities Trading Policy can be found on the Company's website at www.jbhifi.com.au via the "Investors" and "Governance" sections.

INTEGRITY OF REPORTING

The Company has put in place controls designed to ensure the integrity of its financial reporting and that the Company complies with all regulatory requirements relevant to this reporting.

In accordance with the Corporations Act and the ASX Recommendations, the Chief Executive Officer and Chief Financial Officer have stated in writing to the Board that, in their opinion:

(a) the financial records of the consolidated entity (consisting of the Company and the entities it controlled for the financial year ended 30 June 2016) for the financial year have been properly maintained in accordance with section 286 of the Corporations Act;

(b) the financial statements for the financial year and the notes required by the accounting standards give a true and fair view of the consolidated entity's financial position and performance, and comply with the accounting standards;

(c) the statements in (a) and (b) above are founded on a sound system of risk management and internal control which is operating effectively; and

(d) subsequent to 30 June 2016, no changes or other matters have arisen that would have a material effect on the operation of the risk management and internal control systems of the Group.

The Company's financial statements are subject to an annual audit by an independent, professional auditor who also reviews the Company's half yearly financial statements. The Audit and Risk Management Committee oversees this process on behalf of the Board. Deloitte has been the Company's external auditor since 2002. The audit engagement partner is rotated every five years.

Information on procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners can be found in the Charter of the Audit and Risk Management Committee on the Company's website at www.jbhifi.com.au via the "Investors" and "Governance" sections.

CONTINUOUS DISCLOSURE

The Company seeks to provide relevant and timely information to its shareholders and is committed to fulfilling its continuous disclosure obligations.

The Board has approved a Continuous Disclosure Policy to ensure that the procedures for identifying and disclosing material price sensitive information in accordance with the Corporations Act and ASX Listing Rules are clearly articulated. This policy sets out the obligations of employees in respect of such information. The Chief Executive Officer, in consultation with the Chairman where appropriate, is responsible for communication with the ASX.

A copy of the Continuous Disclosure Policy can be found on the Company's website at www.jbhifi.com.au via the "Investors" and "Governance" sections.

SHAREHOLDER COMMUNICATIONS

The Company's website www.jbhifi.com.au contains an overview of the Company's business and its history ("Consumer Matters" section), and an "Investors" section which includes the following information for shareholders:

- all market announcements and related documents, which are posted immediately after release to the ASX;
- details relating to the Company's directors and executives;
- Board and Board Committee charters and other corporate governance documents;
- a calendar of forthcoming key dates such as the date of results releases and the Company's AGM;
- a summary of the Company's dividend policy and its dividend payment history; and
- details of how investors can contact the Company and its share registry.

Shareholders can elect to receive communications from the Company's share registry electronically which also gives shareholders the opportunity to manage their account details and holdings electronically. Shareholders are also able to send communications to the Company and receive responses to these communications electronically.

A copy of the Company's Shareholder Communication Policy can be found on the Company's website at www.jbhifi.com.au via the "Investors" and "Governance" sections.

The Company has an investor relations program which involves regular meetings with significant current and potential investors, and with analysts and the financial media.

The Company holds its Annual General Meeting in Melbourne, to which all shareholders are invited. Shareholders who are unable to attend can appoint a proxy to attend and vote or, alternatively, can vote electronically in advance of the Meeting. The Company ensures that the external auditor attends its Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

RISK IDENTIFICATION AND MANAGEMENT

JB Hi-Fi's policy is to consider the balance of risk and reward, as far as practicable, in order to optimise the returns gained from its business activities and to meet the expectations of its shareholders.

The Board has delegated to the Audit and Risk Management Committee responsibility for overseeing the implementation of policies and procedures aimed at ensuring that the Company conducts its operations in a manner that adequately manages risk to protect its people, the environment and the Company's assets and reputation. Risk identification and management is also a key focus of the executive and management teams.

The Company does not have an internal audit function but has a dedicated risk management team led by the Group Risk & Assurance Manager. The Group Risk & Assurance Manager is a member of the Company's senior management team, has direct access to the Chair of the Audit and Risk Management Committee, and attends all meetings of the Committee at which risk management is considered. The Company's risk management team has designed an effective risk management framework in line with ISO 31000 which enables management to identify and manage risk appropriately. This risk framework is reviewed and revised with input from senior management and the Audit and Risk Management Committee, and is approved by the Board on an annual basis. The risk management framework was last reviewed and revised by the Committee and approved by the Board in December 2015.

A copy of the Company's Risk Management Policy can be found on the Company's website at www.jbhifi.com.au via the "Investors" and "Governance" sections.

ECONOMIC, ENVIRONMENTAL & SOCIAL SUSTAINABILITY RISKS

Economic sustainability risks

Economic sustainability risks are risks to the Group's ability to continue operating at its current level of economic production over the long term.

The Group is exposed to a number of economic sustainability risks, which have a real possibility of substantively impacting on the Group's ability to create or preserve value for its shareholders over the short, medium or long term. These economic sustainability risks (together with JB Hi-Fi's strategies for managing these risks) are discussed in the "Business Strategies and Prospects" section of the Operating and Financial Review commencing on page 25.

Environmental sustainability risks

Environmental sustainability risks are risks to the Group's ability to continue operating in a manner that does not compromise the health of the ecosystems in which it operates over the long term.

The Group does not believe that it is exposed to any environmental sustainability risks which have a real possibility of substantively impacting on the Group's ability to create or preserve value for its shareholders over the short, medium or long term.

Notwithstanding this, environmental sustainability is important to the Group and, accordingly, the Group has implemented several initiatives to minimise the impact of its operations on the environment. These initiatives are discussed in the Environmental Statement on page 14 and include participation in the Carbon Disclosure Project, the Australian Packaging Covenant and various recycling initiatives related to the products the Company sells.

Social sustainability risks

Social sustainability risks are risks to the Group's ability to continue operating in a manner that meets accepted social norms and needs over the long term.

The Group does not believe that it is exposed to any social sustainability risks which have a real possibility of substantively impacting on the Group's ability to create or preserve value for its shareholders over the short, medium or long term.

Notwithstanding this, the Group prides itself on conducting its business in a socially responsible manner and believes that it is important to give back to the community. The Group's initiatives in this regard are discussed in the Social Statement on page 15, the most significant of which is its Helping Hands workplace giving program.

BOARD AND EXECUTIVE PERFORMANCE

JB Hi-Fi monitors and evaluates the performance of its Board, Board Committees, individual directors, and executives in order to fairly review, and actively encourage enhanced, Board and management effectiveness.

In June of each year, each director completes a written board review and assessment document, and subsequent one-on-one interviews then take place between the Chair and each director which cover:

- review of Board performance as a whole;
- review of the individual director's performance; and
- review of the Chair's performance.

The Chair reports back to the Board on the discussions and the Board considers any issues as necessary.

Directors may also discuss the Chair's performance with the Chair of the Company's Audit & Risk Management Committee, who will report back to the Board if necessary.

The Chair provides informal feedback to directors throughout the year as necessary.

Each Board Committee reviews its performance and reports the results of the review to the Board. Where necessary, recommendations will be made to the Board for improving the effectiveness of the relevant Committee.

Review of the CEO's performance is evaluated by the Chair, with ultimate oversight by the Board. This involves an assessment against both financial and non-financial performance measures. All other Executives are evaluated by the CEO including: (i) assessment against both financial and non-financial performance measures; and (ii) a one-on-one meeting between the CEO and executive to discuss the executive's performance. The CEO provides a summary of the evaluation of each executive to the Board and the Remuneration Committee.

Evaluation of the Board, Board Committees, individual directors and executives has been conducted in respect of the 2016 financial year.

DIRECTORS' FEES AND EXECUTIVE REMUNERATION

Directors' fees

The details of remuneration paid to each non-executive director during the financial year and the principles behind the setting of such remuneration are included in the Remuneration Report.

Executive remuneration

The amount of remuneration, both monetary and non-monetary, for the executives who had authority and responsibility for planning, directing and controlling the activities of the Company during the financial year, and the principles behind the setting of such remuneration, are included in the Remuneration Report.

ENVIRONMENTAL STATEMENT

JB Hi-Fi promotes environmental sustainability. JB Hi-Fi's Code of Conduct, which can be found on the Company's website at www.jbhifi.com.au via the "Investors" and "Governance" sections, states:

"All employees are responsible for maintaining and protecting the environment. Employees should, therefore, always consider the impact of their activities on the environment and the local community, including the way in which waste is disposed, chemicals are used and stored, and natural resources utilised".

The Group is committed to reducing the impact its business has on the Australian and New Zealand environments, and has implemented several initiatives to help achieve this, as outlined below.

Carbon Disclosure Project

JB Hi-Fi responds annually to the Carbon Disclosure Project ("CDP"). The CDP is a not-for-profit organisation that collates and reports company environmental actions to external users such as investors and other corporations. JB Hi-Fi has systems in place to ensure it is reporting and monitoring energy consumption and greenhouse gas emissions. In addition, JB Hi-Fi seeks to identify opportunities and implement solutions to reduce energy consumption and greenhouse gas emissions whilst maintaining its low cost of doing business.

JB Hi-Fi has provided its 2016 response to the CDP, and is awaiting the score. In 2015, JB Hi-Fi received a score of 73 out of 100 and performance band E, which is consistent with the 2014 results.

Smarter Choice Program

JB Hi-Fi participates in the Smarter Choice program in conjunction with the Victorian and New South Wales State Governments. This program educates our employees on how to best advise customers about the energy efficiency of products. This has been positively supported by Company employees with engagement targets being achieved.

Australian Packaging Covenant

JB Hi-Fi is a signatory to the Australian Packaging Covenant. This is a voluntary program involving both Government and industry to ensure the environmental impact from packaging is reduced, measured and understood. Each signatory to the Australian Packaging Covenant is required to have an action plan which sets out what the signatory proposes to do to contribute to the Australian Packaging Covenant's objectives and goals. JB Hi-Fi reports annually to the Australian Packaging Covenant Council and signatories to the Australian Packaging Covenant are given a rating (out of 5) on their performance against their action plan annually. JB Hi-Fi's rating for FY2016 is not yet available (FY2015: 3.0).

Mobile Phone Recycling And Re-Use

Mobile Muster is an initiative of the Australian Mobile Telecommunications Association introduced to facilitate mobile phone recycling. Since 2010, JB Hi-Fi has implemented this voluntary initiative to facilitate the return of used mobile phones by customers. During FY2016 JB Hi-Fi also ran a mobile phone trade in program which has the benefit of reducing the number of mobile phones entering landfill.

Cartridges 4 Planet Ark

JB Hi-Fi launched Cartridges 4 Planet Ark in stores in 2010. This program enables consumers to drop used printer cartridges at JB Hi-Fi stores, where they are collected and returned for recycling and remanufacturing, ensuring landfill is avoided. In FY2016, approximately 35,000 cartridges were recycled through this program. Since the commencement of the program almost 135,000 cartridges have been recycled.

Store Recycling Initiatives

All stores have paper and cardboard recycling bins and certain stores also recycle old appliances.

Support Office

The JB Hi-Fi Support Office is located in an environmentally friendly "five star energy rated" office building.

SOCIAL STATEMENT

JB Hi-Fi recognises the importance of social responsibility to our shareholders, employees, suppliers and customers. As one of Australia's and New Zealand's leading retailers JB Hi-Fi is committed to understanding how JB Hi-Fi can work with its employees, customers and suppliers to ensure that it gives back to the community.

JB HI-FI'S WORKPLACE GIVING PROGRAM – "HELPING HANDS"

Established in 2008, Helping Hands is JB Hi-Fi's workplace giving program. Through this program, JB Hi-Fi directors, executives and employees are able to donate to registered charitable organisations. JB Hi-Fi matches dollar for dollar regular employee contributions through its payroll system, effectively doubling the financial benefit to our community partners. JB Hi-Fi works with The Australian Charities Fund ("ACF") in Australia to develop and maintain the program and, in doing so, contributes to the Company's vision of seeing significant social impact through employers and community organisations working together. Through the combined giving of the Company and its employees, JB Hi-Fi believes it makes a real difference to the charities in the program.

Helping Hands – Australia

The Helping Hands program in Australia involves over 4,700 employees (approximately 68% of total JB Hi-Fi Australia employees) each making weekly contributions. This year over $1,800,000 has been raised and, since its inception, the Company and its employees are proud to have raised more than $9,100,000.

The current charity partners to which contributions are made are Bush Heritage Australia, ReachOut.com, Medicins Sans Frontieres (Doctors Without Borders), Sunrise Children's Village (Cambodia), The Song Room, RedKite, Fred Hollows Foundation, Oxfam and the Australian Animal Welfare League.

Helping Hands – New Zealand

The Helping Hands program was launched in New Zealand in May 2012 and involves over 210 employees (approximately 43% of JB Hi-Fi New Zealand employees) each making weekly contributions. This year over $65,000 was raised and since its inception over $215,000 has been raised. The current charity partners in New Zealand are ShelterBox, Kenzies Gift, Forest and Bird, Youthline and Plunket.

"Change For Change" – Donation Boxes In Our Stores

The Helping Hands program has driven the placement of "Change for Change" boxes in all stores across Australia and New Zealand. These boxes have been placed at point of sale locations to encourage donations from our customers. All donations collected are shared evenly amongst the Company's charity partners. This year over $50,000 has been collected in Australia and, since inception, the program has raised over $485,000. In New Zealand approximately $25,000 has been collected since boxes were first introduced into stores.

"Employer Leadership Group" – Founding Partner

In addition to its contribution through Helping Hands, the Company is a founding partner of the Australian Charities Fund's "Employer Leadership Group" ("ELG") that was formed in October 2010 to generate awareness of the benefits of workplace giving programs across the leadership of Australian businesses. The goal of ACF is to achieve one million Australians giving to charity through their place of work by 2020. Members of the ELG have demonstrated best practice in engaging with their employees around community issues and are committed to leading the growth of the sector alongside the ACF. As a founding partner, JB Hi-Fi seeks to play its part in encouraging workplace giving as a low cost and highly efficient way of generating funds for the charitable sector and the Company's CEO, Richard Murray, is Chairman of the ELG. In addition to the Helping Hands and Change for Change contributions detailed above, JB Hi-Fi donated $25,000 per annum to the ACF over each of the three years from 2012 to 2014. In 2015 the Company renewed its support for the ACF and increased its annual commitment to $50,000 per annum for each of the three years from 2015 to 2017.

The directors of JB Hi-Fi Limited (the "Company") submit herewith the annual financial report of the consolidated entity consisting of the Company and the entities it controlled (the "Group") for the financial year ended 30 June 2016. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

The names and particulars of the directors of the Company during or since the end of the financial year are:

Name	*Particulars*
Mr Greg Richards Chairman Non-Executive Director B.Ec (Hons)	Greg was appointed to the Board in December 2007 and was appointed Chairman of the Board in June 2012. Greg is a member and Chairman of the Remuneration Committee and was Chairman of the Audit and Risk Management Committee from February 2010 until May 2012. Prior to 2006, Greg had over 25 years' experience in the investment banking industry. Most recently he was with Goldman Sachs JBWere for over 19 years where he was an equity partner for 17 years, working primarily in equity capital markets. Greg is also the non-executive chairman of Vitaco Holdings Limited.
Ms Beth Laughton Non-Executive Director B.Ec, FAICD, FCA	After qualifying as a Chartered Accountant, Beth spent over 25 years in corporate finance, providing mergers and acquisition advice and arranging equity funding for companies in a range of industries including specialty retail. For 12 years her primary focus was on information technology, telecommunications and entertainment. She is also a member of the Board of GPT Funds Management Limited and Chair of its Audit, Compliance & Risk Management Committee and a member of the Defence SA Advisory Board and its Audit & Risk Management Committee. Beth was a non-executive director and Chair of the Audit Committee of Sydney Ferries from 2004 to 2010, a non-executive director of Port Adelaide Maritime Corporation from 2006 to 2007, a non-executive director and member of the Audit Committee of the ASX listed Australand Property Group companies between May 2012 and October 2014, and Chair of the Audit Committee and a Non-Executive Director of CRC Care Pty Ltd from March 2012 to December 2014. Beth was appointed to the JB Hi-Fi Board in May 2011, became Chair of the Audit & Risk Management Committee on 1 June 2012 and was appointed to the Company's Remuneration Committee in October 2015.
Mr Gary Levin Non-Executive Director B.Comm, LLB	Gary has over 30 years' experience on the boards of public and private companies in the retail, investment and renewable energy fields in both executive and non-executive roles. He is currently on the board of Baby Bunting Group Ltd and a number of private investment companies. Gary holds a Bachelor of Commerce and Bachelor of Laws from the University of New South Wales and is a member of the New South Wales Bar Association and the Australian Institute of Company Directors. Gary has been a director of JB Hi-Fi since listing in 2003 and for the 3 years prior to that, and is also a member of the Remuneration Committee and the Audit and Risk Management Committee. It is Gary's intention to retire from the Board with effect from the conclusion of the Company's 2016 Annual General Meeting.
Ms Wai Tang Non-Executive Director BAppSC, MBA, GAICD	Wai was appointed to the Board on 14 September 2015 and is a member of the Company's Audit & Risk Management Committee. Wai has extensive retail industry experience and knowledge gained through senior executive and board roles. Her former senior executive roles included Operations Director for Just Group and Chief Executive Officer of the Just Group sleepwear business, Peter Alexander. Prior to joining the Just Group, Wai was General Manager of Business Development for Pacific Brands. Wai was co-founder of the Happy Lab retail confectionery concept. Wai is also a non-executive director and member of the Audit Committee and the Risk & Compliance Committee of Vicinity Limited, and a non-executive director of Kikki K, the Melbourne Festival and Visit Victoria. Wai's former directorships include Speciality Fashion Group and the Melbourne Fashion Festival.
Mr Richard Uechtritz Non-Executive Director	Richard has over 30 years' experience in retailing. He was co-founder of Australia's two leading photo chains, Rabbit Photo and Smiths Kodak Express. He was also a director of Kodak (Australasia) Pty Ltd. Richard led the management buy-in of JB Hi-Fi in July 2000 and was CEO and Managing Director until his resignation from these positions in May 2010. Richard re-joined the Board in April 2011 as a non-executive director. He is also a non-executive director of Seven Group Holdings Limited.

Mr Richard Murray Chief Executive Officer and Executive Director B.Comm, Grad.Dip. Applied Finance & Investment, CA	Richard became Chief Executive Officer on 1 July 2014 having been appointed to the Board in June 2012. Richard has over 20 years' experience in retail and finance. He joined JB Hi-Fi as CFO in 2003 and took the business through the IPO process. Prior to this Richard worked with Deloitte for 10 years. He is currently Chairman of the Australian Charities Fund Employer Leadership Group, which aims to encourage Australian businesses to set up workplace giving programs.
Mr James King Non-Executive Director B.Comm, FAICD	James was appointed to the Board in May 2004 and retired on 29 October 2015. James served as Chairman from March 2006 until September 2007. James was a member of the Audit and Risk Management Committee and the Remuneration Committee.

Each of the aforementioned directors held office for the whole financial year and since the end of the financial year other than Wai Tang and James King as set out above.

Company Secretary	*Particulars*
Mr Doug Smith BA (Hons). Admitted to legal practice in Victoria & in England & Wales.	Doug was appointed Company Secretary in June 2012. Doug joined JB Hi-Fi as General Counsel in September 2010 and has over 20 years' legal and company secretarial experience in-house and in private practice.

Directorships of other listed companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	*Company*	*Period of Directorship*
Greg Richards	Vitaco Holdings Limited	August 2015 (listed September 2015)
Beth Laughton	Australand Holdings Limited, Australand Property Limited, Australand Investments Pty Ltd	May 2012 – October 2014
Gary Levin	Baby Bunting Group Limited	Since August 2014 (listed October 2015)
Wai Tang	Vicinity Limited	Since May 2014
Richard Uechtritz	Seven Group Holdings Limited	Since June 2010
James King (non-executive director until 29 October 2015)	Navitas Limited	Since November 2004
	Pacific Brands Limited	September 2009 – July 2016
	Trust Company Limited	February 2007 – December 2013

Additional Director

As announced to the ASX on 20 June 2016, it is intended that Stephen Goddard will join the Board with effect from 25 August 2016. Stephen has more than 30 years' retail experience having held senior executive positions with some of Australia's best known retailers. These include Finance Director and Operations Director for David Jones, founding Managing Director of Officeworks, and various senior management roles with Myer. Stephen is currently a non-executive director and the chair of the Audit & Risk Management Committee of SurfStitch Group Ltd and was previously a non-executive director and chair of the Audit & Risk Management Committee of Pacific Brands. He will become a non-executive director of GWA Group Limited in October 2016. Having been appointed by the Board as an additional appointee, Stephen will stand for election at the Company's Annual General Meeting in October 2016.

Principal activity

The Group's principal activity in the course of the financial year was the retailing of home consumer products. The Group offers a wide range of leading brands with particular focus on consumer electronics, software including music, games and movies, whitegoods and appliances.

There have been no significant changes in the principal activity of the Group during the financial year.

Operating and Financial Review

The Operating and Financial Review, which forms part of this Directors' Report, is presented separately on pages 21 to 27.

Changes in state of affairs

Between 7 September 2015 and 22 September 2015 the Company purchased 714,441 shares pursuant to an on-market buy-back in order to offset the dilutionary impact of shares issued between 15 September 2014 and 4 September 2015 pursuant to the exercise of employee share options and shares that could be issued between 30 October 2015 and 4 March 2016 pursuant to the exercise of employee share options. The cost to the Company of purchasing these shares was $13,181,290. The highest price paid by the Company was $18.78 and the lowest price paid by the Company was $17.93.

Subsequent events

On 15 August 2016, the Company announced that it would conduct an on-market buy-back in order to offset the dilutionary impact of: (i) shares likely to be issued pursuant to the exercise of employee share options between the date of release of the Company's FY2016 results and the end of the Company's post-AGM "trading window" in November 2016; and (ii) shares that will be issued in August 2016 in satisfaction of Executives' FY2016 deferred STI entitlements. The maximum number of shares that will be purchased is 429,371 and the buy-back is scheduled to commence in September 2016.

There have been no other matters or circumstances occurring subsequent to the end of the financial year, that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Future developments

Information regarding likely developments in the operations of the Group in future financial years is set out in the Operating and Financial Review and elsewhere in the Annual Report.

Environmental regulations

The Group is not involved in any activities that have a marked influence on the environment within its area of operation. As such, the directors are not aware of any material issues affecting the Group or its compliance with the relevant environmental agencies or regulatory authorities.

Dividends

In respect of the financial year ended 30 June 2015, as detailed in the Directors' Report for that financial year, an interim dividend of 59.0 cents per share and a final dividend of 31.0 cents per share, both franked to 100% at the 30% corporate income tax rate, were paid to the holders of fully paid ordinary shares on 27 February 2015 and 11 September 2015 respectively.

In respect of the financial year ended 30 June 2016, an interim dividend of 63.0 cents per share was paid to the holders of fully paid ordinary shares on 4 March 2016 and the directors have declared the payment of a final dividend of 37.0 cents per share, to be paid to the holders of fully paid ordinary shares on 9 September 2016. Both dividends are franked to 100% at the 30% corporate income tax rate. The total dividend for the financial year of 100.0 cents per share represents a payout ratio of just over 65% of the full year earnings.

Indemnification of officers and auditors

The Company indemnifies current and former directors and officers for any loss arising from any claim by reason of any wrongful act committed by them in their capacity as a director or officer (subject to certain exclusions as required by law). During the financial year, the Company has paid premiums in respect of contracts insuring the directors and officers against any liability of this nature. In accordance with normal commercial practices, under the terms of the insurance contracts the nature of the liabilities insured against and the amount of the premiums paid are confidential. The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such by an officer or auditor.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of Committees of directors) held during the 2016 financial year and the number of meetings attended by the members of the Board or the relevant Committee. During the financial year, 17 Board meetings, 5 Remuneration Committee meetings and 7 Audit and Risk Management Committee meetings were held.

	Board of Directors		Remuneration Committee		Audit and Risk Management Committee	
Directors	*Held*	*Attended*	*Held*	*Attended*	*Held*	*Attended*
G. Richards	17	17	5	5	–	–
B. Laughton	17	17	3	3	7	7
G. Levin	17	16	5	5	7	7
W. Tang	13	11	–	–	4	4
R. Uechtritz	17	15	–	–	–	–
R. Murray	17	17	–	–	–	–
J. King	6	5	2	2	3	3

Directors' shareholdings

The following table sets out each director's relevant interest in shares, debentures, and rights or options in shares or debentures of the Company, or a related body corporate, as at the date of this Report.

	Fully paid ordinary shares			Executive share options		
Directors	*Direct number*	*Indirect number*	*Total*	*Direct number*	*Indirect number*	*Total*
G. Richards	3,000	20,000	23,000	–	–	–
B. Laughton	2,000	–	2,000	–	–	–
G. Levin	30,000	–	30,000	–	–	–
W. Tang	–	2,000	2,000	–	–	–
R. Uechtritz	10,000	–	10,000	–	–	–
R. Murray[(i)]	100,000	2,000	102,000	413,444	–	413,444

(i) Excludes any options that may be granted by the Board in August 2016. The issue of any such options to R. Murray, the executive director of the Company, is also subject to shareholder approval at the Company's Annual General Meeting in October 2016.

Remuneration Report

The Remuneration Report, which forms part of this Directors' Report, is presented separately on pages 28 to 50.

Proceedings on behalf of the Company

The directors are not aware of any persons applying for leave under s.237 of the Corporations Act 2001 to bring, or intervene in, proceedings on behalf of the Company.

Non-audit services

For a Group of the size and complexity of JB Hi-Fi, it can be in the interests of the Group to engage the services of its auditor to assist in a range of related projects. The directors are aware of the issues relating to auditor independence and have in place policies and procedures to address actual, potential and perceived conflicts in relation to the provision of non-audit related services by the Company's auditor.

In FY2016 the Company engaged its auditor to provide services in the form of assistance to JB Hi-Fi's IT team with minor improvements to a customer relationship management tool for the Company's commercial division (the auditor having assisted with the implementation of this tool in FY2015). As disclosed in note 26 to the financial statements, the fee for the work in FY2016 was $58,216. This work is now complete and no further assistance from the Company's auditor on this project is anticipated. The directors are satisfied that the provision of these non-audit services during the year by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Based on advice received from the Audit and Risk Management Committee, the directors are of the opinion that these services as disclosed in note 26 to the financial statements do not compromise the auditor's independence, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in the Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Australian Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Auditor's independence declaration

The auditor's independence declaration is included on page 51 of the Annual Report.

Rounding off of amounts

The Company is a company of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the Directors' Report and financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the directors

Greg Richards
Chairman

Richard Murray
Chief Executive Officer

Melbourne
15 August 2016

OVERVIEW OF OPERATIONS

The Group sells the following products in Australia and New Zealand:

- consumer electronics including televisions, audio equipment, computers and cameras;
- software (CDs, DVDs, Blu-ray discs and games);
- whitegoods, cooking products and small appliances;
- telecommunications products and services;
- musical instruments; and
- digital video content.

The Group also provides information technology and consulting services.

The Group holds significant market-share in many of its product categories.

The Group's sales are primarily from its branded retail store network (135 JB Hi-Fi stores and 59 JB Hi-Fi Home stores) and online. Sales are also generated from the Group's commercial and education solutions offer.

FINANCIAL PERFORMANCE – HIGHLIGHTS

	FY16	*FY15*	*Mvt*
Total Sales	$3,954.5m	$3,652.1m	+8.3%
Gross Margin	21.88%	21.86%	+3 bps
Cost of Doing Business ("CODB")	15.24%	15.25%	-1 bps
Earnings Before Interest and Tax ("EBIT")	$221.2m	$200.9m	+10.1%
EBIT Margin	5.59%	5.50%	+9 bps
Net Profit After Tax ("NPAT")	$152.2m	$136.5m	+11.5%
Earnings per share ("EPS")	153.8 cps	137.9 cps	+11.5%
Total dividend - fully franked	100.0 cps	90.0 cps	+11.1%

SALES PERFORMANCE

Total sales were up 8.3% to $3,954.5 million (2015: $3,652.1 million) and comparable sales growth was 5.4% (Australia: 5.5%, New Zealand: 4.4%). Sales momentum was solid throughout FY2016, with good sales in June driven by tax time buying.

By value, sales were split between hardware and services at 85.9% and software at 14.1% (FY2015: 83.9%/16.1%). Hardware and services is defined as all sales excluding the music, movies and games software categories.

Significant factors in the sales performance were as follows:

Australia

- Sales grew by 8.2% to $3,739.6 million with comparable sales up 5.5%, primarily as a result of the rollout of JB Hi-Fi Home branded stores, the opening of new stores, the maturing of stores opened in previous years, the rollout of small appliances into existing stores and the growth of JB Hi-Fi Solutions and the Group's online operations.
- Hardware and services sales (all sales excluding Software) were up 10.8% for the financial year with comparable sales up 8.1%, driven by growth across Telecommunications, Fitness, Accessories, Visual, Computers, and Home appliance categories.
- Software sales (music, movies and games software) were -5.4% and, on a comparable basis, -7.6%.

New Zealand

- Total sales were up 11.2% to NZ$234.6 million and comparable sales growth was 4.4%.
- Sales growth has been driven by a new store (Queensgate) opened in FY2016 and the elevated market wide demand for third party prepaid content cards in the first half of FY2016. Excluding the sales impact of these cards (NZ$8.4 million), total sales growth was 7.2% and comparable sales growth was 0.7%.

GROSS MARGIN

Gross margin was 21.88% for the period, up 3 bps from the previous financial year.

In Australia, the gross margin in FY2016 increased by 2 bps to 22.08%, which was a pleasing result given the change in sales mix. In New Zealand, gross margin increased by 26 bps to 18.42%.

COST OF DOING BUSINESS

CODB was 15.24% for the period, down 1 bps from cost of doing business of 15.25% in the previous financial year. Total operating costs remained well controlled and were in line with Company expectations.

In Australia, CODB decreased by 2 bps to 15.18%. In New Zealand, CODB increased by 11 bps to 16.33%. The Group seeks to maintain its low CODB through continued focus on productivity and minimising indirect expenditure.

EARNINGS

EBIT was up 10.1% to $221.2 million from EBIT of $200.9 million in the previous financial year and the resulting EBIT margin was 5.59%, up 9 bps from EBIT margin of 5.50% in the previous financial year.

In Australia, EBIT was up 10.4% to $220.3 million and EBIT margin was up 12 bps from 5.77% in the previous financial year to 5.89%. In New Zealand, EBIT was down 37.2% to NZ$1.0 million and EBIT margin was down 32 bps from 0.74% in the previous financial year to 0.42%.

Net profit after tax was up 11.5% to $152.2 million. Earnings per share were up 11.5% from 137.9 cps to 153.8 cps.

Net interest expense in FY2016 was down 38.0% to $3.3 million, driven primarily by lower debt levels.

The effective tax rate in FY2016 was 30.1%, down from 30.2% in FY2015.

CAPITAL MANAGEMENT AND DIVIDENDS

The Group regularly considers its capital structure with a focus on maximising returns to shareholders. Continued solid earnings growth and prudent management of the Group's balance sheet, including relatively low gearing, enables the Group to consider various capital management initiatives.

The debt facilities of the Group have remained stable during the period.

- The Group has a term debt facility of $200.0 million that expires in June 2018. The Group's overdraft facilities of $80.0 million and NZ$10.0 million are renewable annually. The Group also has an additional seasonal bank overdraft facility of $50.0 million in February to April and in November each year.
- At the end of the financial year the Group had total interest bearing liabilities of $110.0 million.
- Net debt decreased from $90.3 million to $57.9 million, in line with internal expectations.
- The financial covenants included in the Group's financing facilities are the leverage and fixed charges cover ratios. The Group has complied with each of its financial covenants throughout the period.

During the financial year 671,849 ordinary shares were issued to employees under the Company's share option plans.

Between 7 September 2015 and 22 September 2015, the Company undertook an on-market buy-back of 714,441 ordinary shares (representing approximately 0.7% of the total issued share capital of the Company) at a cost of $13,181,290. This buy-back was conducted in order to offset the dilutionary impact of shares issued between 15 September 2014 and 4 September 2015 pursuant to the exercise of employee share options and shares that could be issued between 30 October 2015 and 4 March 2016 pursuant to the exercise of employee share options.

On 15 August 2016 the Group announced its intention to neutralise the impact of: (i) shares likely to be issued pursuant to the exercise of employee share options between date of release of the Company's FY2016 results and the end of the Company's post-AGM "trading window" in November 2016; and (ii) shares that will be issued in August 2016 in satisfaction of Executives' FY2016 deferred STI entitlements. This will be done via an on-market buy-back of ordinary shares, to commence in September 2016. Further detail is provided in the "Subsequent Events" section of the Directors' Report.

The total dividend for the 2016 financial year of 100.0 cents per share represents a payout ratio of just over 65% of the full year earnings. The Board currently believes a 65% dividend payout ratio appropriately balances the distribution of profit to shareholders and reinvestment of earning for future growth. The final dividend for the 2016 financial year of 37.0 cents per share fully franked will be paid on 9 September 2016 with a record date of 26 August 2016.

INVESTMENTS FOR FUTURE PERFORMANCE

Net cash outflow on investing activities was $52.0 million, up from $44.4 million in the prior year. Investing activities comprised Capital expenditure as set out below.

Investments of $52.3 million were made during the financial year in capital expenditure projects, an increase of $9.8 million from $42.5 million during the previous financial year. These projects primarily consisted of new store openings, JB Hi-Fi Home store conversions, store relocations and upgrades, and online projects.

These investing activities are anticipated to contribute towards earnings growth in the 2017 financial year and beyond.

WORKING CAPITAL

Inventory levels were in line with internal expectations. Total inventory on hand increased from the previous financial year by $67.6 million, driven primarily by the Company's investment in inventory for new stores, the roll-out of appliances and an increase in inventory in existing stores to support July promotional activity. This increase was partially offset by the transition to a consignment stock model with certain suppliers. Inventory turnover was 6.0 times (FY2015: 6.1 times).

Creditor days increased 1.8 days on the previous financial year to 42.0 days. Total creditors increased by $59.3 million to $384.9 million.

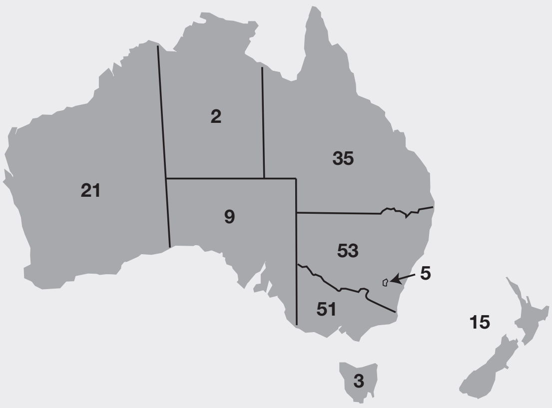
Financial and operating leverage remains low and is evidenced by solid fixed charges cover of 3.5 times (FY2015: 3.4 times) and interest cover of 57.3 times (FY2015: 33.9 times). The Company's gearing ratio is 0.4 (FY2015: 0.6).

STORES

The Group's sales are primarily from its branded retail store network, located both in stand-alone destination sites and shopping centre locations. As at 30 June 2016, the Group had 194 physical stores (Australia: 179, New Zealand: 15).

The store movements during FY2016 and the store locations as at 30 June 2016 are set out below.

		FY16			
	FY15	*Opened*	*Converted*	*Closed*	*Total*
Australia					
JB HI-FI	133	3	(12)	–	124
JB HI-FI HOME	40	5	12	(2)	55
	173	8	–	(2)	179
New Zealand					
JB HI-FI	11	1	(1)	–	11
JB HI-FI HOME	3	–	1	–	4
	14	1	–	–	15
TOTAL	187	9	–	(2)	194
Store type:					
JB HI-FI	144	4	(13)	–	135
JB HI-FI HOME	43	5	13	(2)	59
	187	9	–	(2)	194
Store format:					
Shopping centres	103	5	2[1]	–	110
Other	84	4	(2)[1]	(2)	84
	187	9	–	(2)	194



[1] Relocations

SYDNEY INTERNATIONAL AIRPORT

The Group has signed a six and a half year cooperation agreement with Heinemann Australia Pty Ltd to be the exclusive technology partner at the Sydney international airport within their duty free stores. JB Hi-Fi commenced trading in the duty free stores on 1 April 2016 and results to date are in line with internal expectations.

The airport store provides an opportunity to trial and extend the JB Hi-Fi model outside the traditional JB Hi-Fi store format.

ONLINE

The Group continues to leverage the benefits of its strong online presence combined with its bricks and mortar locations. The Group's goal is to create a "seamless customer experience" whereby its online sites, combined with its physical locations, provide customers with a choice as to how they wish to shop with JB Hi-Fi. In FY2016, online sales grew 35.8% on the previous financial year to $119.1 million or approximately 3.0% of sales (FY2015: 2.4%). Unique visitations to JB Hi-Fi's websites averaged 1.3 million per week during FY2016, with a peak of 2.3 million around Christmas 2015.

The Group continues to invest in its online sites. The New Zealand website, which is currently operating on an old platform, is in the process of being upgraded to the Australian platform.

JB HI-FI SOLUTIONS

JB Hi-Fi Solutions achieved double digit sales and earnings growth in FY2016 and remains on track to deliver on its longer term aspirational sales target of approximately $500m per annum, through both organic growth and strategic acquisitions.

JB Hi-Fi Solutions comprises:

- Corporate, Government & Education sales of products and services; and
- Insurance replacements.

HOME APPLIANCES

Home appliances represent a significant sales growth opportunity as JB Hi-Fi grows its share of the circa $4.6 billion per annum home appliance market. The Group's JB Hi-Fi Home branded stores offer a full range of JB Hi-Fi traditional categories with approximately 400 square metres of additional space dedicated to a full range of large and small appliances. The Company targets incremental sales per store of approximately $3 million in the first year post conversion, increasing to approximately $5 million over the medium term as the JB HI-FI Home roll-out achieves scale.

As at 30 June 2016, the Group had 59 JB Hi-Fi Home branded stores, including four in New Zealand. During FY2016, the Group converted 13 existing stores to JB Hi-Fi Home branded stores and opened five new JB Hi-Fi Home branded stores. The Company anticipates opening six new JB Hi-Fi Home stores and converting five additional existing stores to the JB Hi-Fi Home brand in FY2017, with 70 JB Hi-Fi Home stores expected by the end of FY2017. The Company's target of 75 JB Hi-Fi Home stores should be reached during FY2018.

In addition to the JB Hi-Fi Home roll-out, the Group is also introducing small appliances into existing JB Hi-Fi stores. These stores have their layout reconfigured but are not rebranded to JB Hi-Fi Home. This store format is suited to JB Hi-Fi stores that are located within shopping centres, or where a JB Hi-Fi Home store is or will be located within that JB Hi-Fi store's catchment area. The Company had 43 stores with small appliances at the end of FY2016, including six in New Zealand. In the long term the Company expects most stores to carry appliances, with the range (i.e. small appliances vs full home offer) tailored to suit each specific store.

SUPPLY CHAIN

The Group has developed a low-cost, fit-for-purpose supply chain and logistics solution. Facilities are operating in Melbourne, Sydney, Perth, Brisbane, Newcastle and Auckland with an additional facility currently being investigated in Adelaide. In other states and regional centres where stand-alone facilities are not currently economic, the JB Hi-Fi Home rollout allows for expanded back-of-house storage areas. Customer feedback regarding their delivery experience has been positive and the Group continues to work closely with its supply chain and logistics partners to further refine its offer.

THE GOOD GUYS SALE PROCESS

As noted in its release to the ASX on 11 August 2016, the Company continues to participate in The Good Guys sale process. JB Hi-Fi has made no decision and nor has it entered into any agreement with respect to an acquisition of The Good Guys. The Company understands that The Good Guys are looking at a range of options including an IPO on the ASX. JB Hi-Fi evaluates all possible opportunities against a range of factors and would only pursue an acquisition if it made compelling financial sense for its shareholders.

BUSINESS STRATEGIES AND PROSPECTS

The following factors are considered important in understanding the strategy of the Group and the main opportunities and threats that may have a significant effect on its results and its prospects for future years. These factors are listed regardless of whether they were significant in FY2016.

Competitive advantages

The Group believes that it has the following fundamental competitive advantages:

- one of Australia's and New Zealand's largest ranges of home entertainment, consumer electronics products;
- whitegoods and small appliances at discounted prices, positioned to appeal to all customers;
- positioned as a discount retailer with the ability to consistently offer everyday low prices. The Group is able to do this through the scale of its operations, high stock turnover and low cost of doing business;
- reputation for taking the deal and price leadership;
- distinctive brand personality;
- low cost operating model which underpins the Group's competitive pricing. The Group is innovative in driving costs down and maintaining its low cost of doing business;
- motivated, passionate, loyal and knowledgeable staff. The busy and enjoyable working environment means that the Group continues to attract and retain high calibre staff;
- high levels of customer service;
- the model is constantly innovating to ensure that it remains current and relevant to its customers. The Group has a culture of embracing change, which is seen as a "natural" part of the business;
- ability to enter and grow new markets;
- stores located in high foot traffic precincts which allow both convenient access for customers and maximise impulse traffic;
- stores have relatively high sales per square metre when compared to many local competitors and comparable international businesses;
- high energy, engaging and entertaining retail format with constantly evolving merchandising. JB Hi-Fi has the ability to bring brands to life and create engagement in product categories;
- high level of loyalty and trust from customers – 1st in the 2016 Corporate Reputation Index released by AMR and the Reputation Institute (1st in 2014, 3rd in 2012, 2013 and 2015); and
- evolving and successful online platform with sales growing approximately 38.5% from the previous financial year and accounting for approximately 3.0% of FY2016 sales.

Business risks

There are a number of factors, both specific to JB Hi-Fi and of a general nature, which may threaten both the future operating and financial performance of the Group and the outcome of an investment in JB Hi-Fi. There can be no guarantee that JB Hi-Fi will achieve its stated objectives or that forward looking statements will be realised. The operating and financial performance of JB Hi-Fi is influenced by a variety of general economic and business conditions, including levels of consumer spending, inflation, interest and exchange rates, access to debt and capital markets, and government fiscal, monetary and regulatory policies.
A prolonged deterioration in general economic conditions, including an increase in interest rates or a decrease in consumer and business demand, may have an adverse impact on the Group's business or financial condition. The specific material business risks faced by the Group, and how the Group manages these risks, are set out below.

- Competition – The markets in which JB Hi-Fi operates remain highly competitive. The Group believes that the competitive advantages set out above and the plans for growth set out below will allow it to maintain its market leading position.
- A loss or erosion of JB Hi-Fi's reputation – A decline in the high level of loyalty and trust that JB Hi-Fi enjoys with its customers could compromise its market leading position and adversely affect JB Hi-Fi's operating and financial performance. This could occur as a result of a wide range of factors or events, including:

- a loss or erosion of JB Hi-Fi's reputation for price leadership and high levels of customer service. The Group seeks to mitigate this risk through careful monitoring of its competitors' pricing and market share data, senior management monitoring of customer complaints, and use of customer service and engagement analytics;
- a major information security breach of JB Hi-Fi's IT systems. The Group seeks to mitigate this risk through investment in IT security measures;
- a major workplace health and safety incident or customer injury occurring in a JB Hi-Fi store. The Group seeks to mitigate this risk through having appropriate occupational health and safety procedures in place for all of its sites; or
- a significant breach of regulatory or legislative requirements. The Group seeks to mitigate this risk through appropriate staff training on key regulatory and legislative requirements relevant to its business, as well as making legal and regulatory compliance a key focus of the management team.

- Consumer discretionary spending and changes in consumer demands – the Group is exposed to consumer spending cycles and changes in consumer demands. The Group maintains its relevance using its strong market position supported by its everyday low price proposition. The Group's stores, which are both in convenient and high traffic locations, seek to maximise both destination and impulse sales. The Group also closely monitors changes in the economic environment, consumer demand and new products, and is able to respond quickly to such changes.
- Online competition taking sales from JB Hi-Fi stores – JB Hi-Fi seeks to provide customers with a quality online offer, while leveraging the benefits of its physical stores. The Group continues to innovate both in-store and online in order to give customers the choice as to how to transact with JB Hi-Fi. The Group's market leadership drives significant buying power which enables the Group to compete successfully with online players as does its low cost of doing business. JB Hi-Fi also believes that the existence of its store network will continue to provide confidence in after-sales service and support to its online customers.
- Digitisation of physical software leading to a fall in traditional software sales – the Group will maintain a software presence in store while the category is still providing solid returns.
- Failure to maintain key supplier relationships – a failure to maintain key supplier relationships could adversely impact on the Group's operating and financial performance. However, the Group has significant supplier management processes to mitigate this risk and, whilst at any one time certain products and suppliers are more important than others, the large and diverse range of products stocked by JB Hi-Fi means that reliance on any one supplier or product is less than for some smaller competitors. In addition, JB Hi-Fi has a proven record of expansion into new product categories and introducing new brands, rather than remaining reliant on those products and brands which were successful in previous years. This is reflected in the fact that, despite a decline in software sales in recent financial years, the Group has achieved positive total sales growth. Hardware and services sales as a percentage of total sales increased from 74.8% of total sales in FY2011 to 85.9% in FY2016 as a result of the expansion into new product categories and the introduction of new brands.
- Increasing cost of doing business – certain costs of doing business are outside of the Group's control. For example the Group's cost of doing business is impacted by the annual Fair Work Award wage reviews (which have resulted in increases totalling 15.3% over the past 5 years to 30 June 2016). However, the increasing scale of the Group's operations continues to deliver cost reductions which mean that higher wage costs can be offset to some extent by cost reductions in other areas.
- Price deflation – this has always been a feature of consumer electronics retail but has mostly been mitigated by increased volumes, technological advancements and, more recently, a weakening of the Australian dollar.
- Leasing arrangements – the ability to identify suitable sites and negotiate suitable leasing terms for new and existing stores is key to the Group's ongoing growth and profitability. The Group believes that it will continue to be able to do this as it has done successfully to date.
- Loss of, or inability to attract and retain, key staff – the Group's ability to attract and retain talented staff is critical to its operating and financial performance. In recognition of this, succession planning and executive/senior management team composition is a key focus for the Board and executive team.
- IT systems – the Group's increasing reliance on IT systems means that outages and disruptions could have a detrimental impact on its operating and financial performance, and any failure to maintain and upgrade its IT systems over time has the potential to inhibit the achievement of the Group's business initiatives. To mitigate the business interruption risk, the Group has documented disaster recovery processes (including off-site IT back-up infrastructure) and has undertaken disaster recovery testing. The Group also continues to invest and develop its IT resources and capabilities.

- Changes in regulatory environment – changes in the regulatory environment in which the Group operates may increase compliance costs, and even (in extreme cases) affect the ability of the Group to sell certain types of products and services or conduct certain activities. Whilst such changes are outside the control of the Group, the Group monitors proposed changes in the regulatory environment so that it can assess the impact of such changes and develop appropriate response strategies where possible.
- Finance – inability to access financing facilities. Details of the Group's financing facilities are set out on page 22.

Strategies to drive growth

The Group believes that the following strategies/factors will continue to drive growth in sales and earnings:

- continued roll-out of JB Hi-Fi stores in Australia and New Zealand with a pipeline of new properties. The Group anticipates opening seven new stores in the 2017 financial year and, subject to ongoing review, maintains its stated target of 214 stores in Australia and New Zealand. Shorter lease terms will be considered where appropriate to provide flexibility;
- the roll-out of JB Hi-Fi Home branded stores leverages the strength of the JB Hi-Fi brand and provides a significant growth opportunity. The Group anticipates that, of the seven new stores to be opened in FY2017, six stores will be JB Hi-Fi Home branded stores and approximately five existing JB Hi-Fi branded stores will be converted to this format in FY2017. In addition to the JB Hi-Fi Home roll-out, the Group is also introducing small appliances into existing JB Hi-Fi stores;
- store roll-out program continues to deliver in excess of its cost of capital;
- proactive management of store portfolio with continuation of the Group's disciplined approach to selecting new stores based on high foot traffic and closure of underperforming or sub-scale existing stores;
- continued growth opportunities in many categories and in market share, both in physical stores and online;
- continued technological innovation and the launch of new products and updated models will continue to drive new and replacement sales;
- target comparable sales growth of 3% per annum or greater;
- focus on growing gross profit dollars, maintain gross margin but not at the expense of sales;
- continued development of the JB Hi-Fi online site, aimed at enhancing the user experience across multiple platforms (e.g. computer, tablet & phone) to drive continued growth in online sales;
- expansion of the online product range and depth beyond that which is practical in store;
- significant opportunities to grow JB Hi-Fi Solutions and expand into new markets;
- improved supply chain and logistics system to support the Group's expansion; and
- maintenance of the Group's competitive advantages and continued mitigation of the business risks faced by the Group detailed on pages 25 to 27.

TRADING OUTLOOK – as at 15 August 2016

July 2016 sales update

- consolidated total sales growth in July 2016 was 13.4% (July 2015: 7.6%); and
- consolidated comparable sales growth in July 2016 was 9.5% (July 2015: 5.7%).

The sales result in July 2016 was a pleasing start to FY2017. Visual sales were particularly strong on the back of dedicated promotional activity launched on 1 July 2016. Other key growth categories included Communications, Accessories and Home Appliances.

FY2017 Guidance

The closure of DSE during the second half of FY2016 has contributed to an increase in sales of Computers, Visual, Audio and Accessories. It is anticipated that this will continue to drive sales growth in the first half of FY2017; however, the impact will moderate as the Group cycles DSE's decline and eventual market exit.

In FY2017 the Group expects:

- to open seven new stores;
- to convert five existing stores to JB Hi-Fi Home; and
- total sales in FY2017 to be circa $4.25 billion.

CONTENTS

SUMMARY

Remuneration Overview

The Board recognises that the performance of the Group depends on the quality and motivation of its people, including both the executives (being those persons listed as executives on page 29) and the approximately 7,800 employees of the Group across Australia and New Zealand. The Company's remuneration strategy seeks to appropriately reward, incentivise and retain key employees. The Board aims to achieve this by setting competitive remuneration packages that include a mix of fixed remuneration and short and long-term incentives ("packages").

Snapshot – FY2016 Remuneration

- The Board notes that the 2016 financial year has been a successful year for the Company, with management having delivered record revenue (increased by 8.3%), EBIT (increased by 10.1%) and EPS (increased by 11.5%). Over the period the Company's share price increased almost 24% from $19.48 on 30 June 2015 to $24.10 on 30 June 2016. These achievements have been reflected in executive remuneration which has increased from the previous year, as demonstrated by the graph on page 35.
- **Remuneration Packages:** Fixed remuneration packages for executives who have been in their role for more than 2 years (Cameron Trainor and Peter Green) increased by between 4.0% and 5.0% from FY2015 to FY2016. At the time of their appointment, remuneration packages for Richard Murray (CEO) and Nick Wells (CFO) were significantly lower than the packages for their predecessors in these roles and FY2016 remuneration increases for these two executives take account of these relatively low starting points. Packages for Richard Murray and Nick Wells remain lower than the FY2014 remuneration packages for their predecessors. The FY2016 increase for Tim Carter (Supply Chain & JB Hi-Fi Solutions Director) also took account of his relatively low starting package when appointed in September 2014.
- **Short term incentive:** The Company's short term incentive plan rewards performance against both financial and non-financial measures. For FY2016 between 98% and 100% of the available short term incentive ("STI") was paid to each executive compared to FY2015 for which between 63% - 71% was paid. 10% of the short term incentive earned by each executive for FY2016 is "deferred" so that the executive will receive 90% of the FY2016 STI to which they are entitled in cash and the remaining 10% in shares which are subject to a restriction on sale/disposal for 1 year after issue.
- **Long-term incentives**: For the first time since August 2011, some of the options issued to executives in previous years vested in FY2016. All long-term incentives ("LTI") issued to executives in FY2016 are in the form of zero exercise price options and are subject to both service and performance based conditions.
- **Fees for Non-Executive Directors**: Fees for non-executive directors remained at the levels set in FY2015.

2017 Remuneration Packages – Key Changes

In setting FY2017 executive remuneration packages, the Company has decided to make the following changes:

- 20% of STI will be subject to deferral (FY2016: 10%). The achievement of STI will continue to be subject to Group and individual performance targets; and
- the mix of the CEO's executive remuneration package will be more heavily geared towards long-term incentive (compared to fixed remuneration and short term incentive).

Further detail is provided on page 36 of this Report.

Non-Executive Director Fees will be increased to take account of inflation since they were last increased in FY2015. Further detail is provided on page 38 of this Report.

EXECUTIVE REMUNERATION FOR FY2016

Details of executive key management personnel

The following persons acted as executive directors and executives of the Company during and since the end of the financial year and are considered members of key management personnel:

Executive Director

Richard Murray	Chief Executive Officer

Executives

Cameron Trainor	Merchandise Director
Peter Green	Operations Director
Nick Wells	Chief Financial Officer
Tim Carter	Supply Chain & JB Hi-Fi Solutions Director
Simon Page	Chief Information Officer (from 14 September 2015)
James Saretta	Strategy & Digital Director (from 2 May 2016)
Kevin Ramsdale	Marketing Director (from 7 September 2015 to 31 March 2016)

Group executive remuneration policy – 2016 financial year

The Board believes that executive remuneration should be fair and reasonable, structured effectively to attract, motivate, retain and reward valued executives, and designed to produce value for shareholders.

The Remuneration Committee reviews the remuneration packages of all executives on an annual basis and makes recommendations to the Board. Remuneration packages are reviewed with due regard to performance and data on remuneration paid by comparable companies. Where appropriate, the Remuneration Committee may receive expert independent advice regarding remuneration levels required to attract, retain and compensate executives given the nature of their work and responsibilities.

In setting the 2016 financial year remuneration packages, the Board and the Remuneration Committee considered a number of factors, including benchmarking analysis and a remuneration recommendation received by the Company in respect of FY2015 executive remuneration, and current market practice.

Remuneration packages for Richard Murray (CEO) and Nick Wells (CFO) remained lower than the FY2014 packages for their predecessors in these roles, recognising that these executives were relatively new to their roles and allowing scope for increases as the executives gain experience and perform in these roles. A similar approach was adopted in setting a remuneration package for Tim Carter (Supply Chain & JB Hi-Fi Solutions Director) who joined the company as Online & Commercial Director in September 2014.

Fixed remuneration packages for individual executives who had been in their role for more than 2 years (Cameron Trainor and Peter Green) increased by between 4.0% and 5.0% from FY2015 to FY2016. The Board determined that these increases were appropriate in view of its need to regularly review and consider levels of remuneration in the light of the market, to take account of the changing scope of roles and responsibilities as the business grows, and in order to appropriately reward, incentivise and retain these key employees.

The Remuneration Committee also considers current market conventions with regard to the splits between fixed, short-term and long-term incentive elements. The splits for FY2016 were as follows:

Executive	*Fixed*	*STI*	*LTI*	*Total*
R. Murray	38%	31%	31%	100%
C. Trainor	45%	33%	22%	100%
P. Green, N. Wells, T. Carter, S. Page, J. Saretta & K. Ramsdale	46%	27%	27%	100%

Further details on each of the key elements of executive remuneration for the 2016 financial year are set out below.

Fixed Remuneration

Fixed remuneration is paid by way of base salary, motor vehicle allowances and superannuation. No elements of fixed remuneration are dependent on performance conditions.

Short-term Incentive

For FY2016 10% of the short term incentive earned by each executive is "deferred" so that the executive receives 90% of the FY2016 STI to which they are entitled in cash, and the remaining 10% in shares which are subject to a restriction on sale/disposal for 1 year after issue. Further detail is set out below.

- the number of shares granted to the executive will be calculated on the basis of the volume weighted average share price for the Company's shares in the five days following the release of the Company's FY2016 results to the ASX;
- these shares are held on trust for the executive in the Company's employee share trust and are subject to restrictions meaning that the executive cannot sell or otherwise dispose of them for 1 year following the release of the Company's FY2016 results to the ASX (and, after that, may only sell or dispose of them in accordance with the Company's Securities Trading Policy);
- during this restricted period the executive receives the dividends on the shares and is able exercise the votes attached to those shares; and
- the Board has the discretion to release the restrictions on disposal early only in exceptional circumstances and if certain additional criteria are satisfied.

STI achievement was subject to financial and non-financial performance conditions as set out below.

Quantitative Bonus – Group EBIT performance

The Group quantitative element of executives' STIs in FY2016 was based on the following criteria:

- if FY2016 statutory EBIT was more than FY2015 statutory EBIT then the STI would apply. No part of the STI would be paid if FY2016 statutory EBIT was the same as, or less than, FY2015 statutory EBIT;
- if FY2016 statutory EBIT was equal to, or exceeded, 110% of FY2015 statutory EBIT then 100% of this element would be paid; and
- payment of STIs between these two benchmarks would be on a linear basis.

Annual growth in EBIT is considered by the Company to be the most relevant measure of the Group's financial performance as it is a key input in driving and growing long term shareholder value and is directly influenced by the performance of the executive team.

Given FY2016 statutory EBIT was 110.1% of FY2015 statutory EBIT, 100% of the available Quantitative Bonus (Group EBIT performance) was paid to executives for FY2016.

Quantitative Bonus – Individual performance

These elements of the STI were measured against individual quantitative criteria approved by the Remuneration Committee and the Board which related to aspects of the business over which the relevant executive had significant influence and where it was felt that increased focus would provide long-term benefit to the business. The specific targets are commercially sensitive; a summary of the criteria have been set out below.

Qualitative Bonus – Individual performance

These elements of the STI were measured against individual qualitative criteria approved by the Remuneration Committee and the Board which related to aspects of the business over which the relevant executive had significant influence and where it was felt that increased focus would provide long-term benefit to the business. The specific targets are commercially sensitive; a summary of the criteria have been set out below.

Details of STI available by executive

	Quantitative Bonus - Group performance	**Quantitative Bonus - Individual performance**					**Qualitative Bonus - Individual performance**	
Executives	*EBIT*	*Inventory/ Gross Margin/ Online*	*Store Operating Metrics/Online*	*Cost of Doing Business/ Online*	*Commercial/ Online*	*I.T./Online*	*Non-financial*	*Total Available*
R. Murray	75%						25%	100%
C. Trainor	60%	15%					25%	100%
P. Green	60%		15%				25%	100%
N. Wells	60%			15%			25%	100%
T. Carter	60%				15%		25%	100%
S. Page	60%					15%	25%	100%
J. Saretta	60%						40%	100%

Notes:

1. J. Saretta joined the Company on 2 May 2016 and, as less than 2 months of FY2016 remained at this time, the Board and Remuneration Committee determined that, for FY2016 only, no part of his STI was dependent upon individual quantitative criteria. Instead 40% of J. Saretta's FY2016 STI was dependent on individual qualitative criteria. It is intended that, for FY2017, J. Saretta's STI is structured in the same way as for all other executives.
2. No information is included for K. Ramsdale as he did not receive any FY2016 STI having left the Company on 31 March 2016.

Non-financial measures include some of the following for each executive:

- Succession planning and team development
- Investor relations
- Strategic initiatives
- Internal process improvements
- Inventory Management
- Property portfolio
- Shrinkage control
- Online Initiatives
- Expenditure control processes and programs
- Workplace health & safety
- Risk management
- Internal and external engagement on key initiatives
- Internal reporting processes

Details of STI achieved per executive

Each executive's performance has been measured against the applicable targets. The resulting percentage of each element of STI actually achieved for the 2016 financial year is detailed in the following table:

	Quantitative Bonus - Group performance	**Quantitative Bonus - Individual performance**					**Qualitative Bonus - Individual performance**	
Executives	*EBIT*	*Inventory/ Gross Margin/ Online*	*Store Operating Metrics/Online*	*Cost of Doing Business/ Online*	*Commercial/ Online*	*I.T./Online*	*Non-financial*	*Total Achieved*
R. Murray	100%						100%	100%
C. Trainor	100%	100%					100%	100%
P. Green	100%		85%				100%	98%
N. Wells	100%			100%			100%	100%
T. Carter	100%				100%		100%	100%
S. Page	100%					86%	100%	98%
J. Saretta	100%						100%	100%

Notes:

1. J. Saretta joined the Company on 2 May 2016 and, as less than 2 months of FY2016 remained at this time, the Board and Remuneration Committee determined that, for FY2016 only, no part of his STI was dependent upon individual quantitative criteria. Instead 40% of J. Saretta's FY2016 STI was dependent on individual qualitative criteria. It is intended that, for FY2017, J. Saretta's STI is structured in the same way as for all other executives.
2. No information is included for K. Ramsdale as he did not receive any FY2016 STI having left the Company on 31 March 2016.

Long-Term Incentive ("LTI") Plan

For the first time since August 2011, some of the options granted to executives (whilst they were executives of the Company) vested in FY2016. Details of options that vested and were exercised are set out on page 45.

Form of FY2016 Executive LTIs

All executive LTIs granted for FY2016 were in the form of share options with zero exercise prices, with EPS based performance hurdles and a service based vesting condition ("Zepos"). LTI grants previously comprised a combination of traditional options (with an exercise price) and Zepos. Given the fluctuation of the Company's share price over recent years (which has largely been influenced by external factors beyond the control of the executives), there is a risk that even where performance conditions are met, the exercise price under the traditional options will exceed the market price and therefore the options hold no value for executives, notwithstanding the delivery of strong company performance. Accordingly, the Company no longer considers traditional options to be an appropriate instrument to give effect to its objectives of rewarding and motivating executives.
Each option expires 6 years after the grant date.

The service based vesting condition provides that one third of these options will vest on each of the 3rd, 4th and 5th anniversary of issue provided that all other vesting conditions are satisfied. The Company believes that this vesting period appropriately aligns the LTIs with longer term performance. Details of the EPS based performance hurdles are set out below.

LTI Performance Hurdles

The EPS performance hurdles referred to above require compound annual EPS growth from the statutory FY2015 EPS base of 137.9 cents per share of between 4% and 8% per annum as follows:

Compound annual EPS growth achieved	**Portion of grant vesting**
4%	40%
5%	50%
8%	100%

Where compound annual EPS growth is 4%, 40% will vest.
Where compound annual EPS growth is between 4% to 5%, up to an additional 10% will vest on a linear basis.
Where compound annual EPS growth is between 5% to 8%, the remaining 50% will vest on a linear basis.

The Board considers this equity performance linked remuneration structure is effective in aligning the long-term interests of executives and shareholders and, at the time of setting the performance hurdles, the Board considered both consensus forecasts and the earnings outlook for the Company.

The following table illustrates the EPS targets for options issued in FY2016 with 4% and 8% compound annual EPS growth:

Year	*FY2018*	*FY2019*	*FY2020*
EPS hurdle - 4% compound growth	155.1	161.3	167.8
Required increase in EPS from FY2015 EPS	12%	17%	22%
EPS hurdle - 8% compound growth	173.7	187.6	202.6
Required increase in EPS from FY2015 EPS	26%	36%	47%

EPS hurdles are tested each year; to the extent a hurdle is not achieved in one year the hurdle is compounded and reassessed in each subsequent year, until the earlier of the hurdle being achieved or the option expiring.

The Company believes that retesting is appropriate as the retesting is done against a cumulative EPS figure. This means that, if the target is missed in one period, it is compounded and retested in the next period. The table below provides an example of EPS compounding for the purpose of hurdle retesting, based on an option granted in August 2015, due to vest in August 2018 and expire in August 2021, assessed against an EPS hurdle of 8%.

Year	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*
EPS	Grant Base EPS = 137.9	n/a	n/a	Test – Required EPS = 173.7	Retest – Required EPS = 187.6	Retest – Required EPS = 202.6	n/a

Further Information on LTIs

The issue of options for FY2016 to Richard Murray, the executive director of the Company, was approved by shareholders at the Company's Annual General Meeting in October 2015.

Further details of the terms of these options, including service and share price conditions are included under the heading "Group share option plans" on page 47.

Relationship between financial performance and remuneration

The Group's executive remuneration is directly related to the performance of the Group through the linking of the majority of short and long-term incentives to certain financial measures as detailed previously and shown below.

The financial performance of the Group is summarised in the table below, whilst the alignment of executive remuneration to the performance of the Group is detailed in the graph on page 35.

							Growth	
		FY2012	*FY2013*	*FY2014*	*FY2015*	*FY2016*	*FY2016*	*Last 5 years[iii]*
1.	Financial performance:							
	Sales ($m)	3,127.8	3,308.4	3,483.8	3,625.1	3,954.5	8%	6%
	EBIT ($m)	161.5	177.8	191.1	200.9	221.2	10%	2%
	Net profit attributable to owners of the Company ($m)	104.6	116.4	128.4	136.5	152.2	11%	3%
	Basic EPS (cents)	105.9	117.7	128.4	137.9	153.8	12%	4%
2.	Shareholder value created:							
	Company share price at the end of the reporting period ($)	8.86	16.81	18.30	19.48	24.10	24%	7%
	Market capitalisation ($m)	875.8	1,663.3	1,810.7	1,928.3	2,384.6	24%	7%
	Enterprise value[i] ($m)	985.9	1,720.3	1,946.9	2,018.7	2,442.5	21%	5%
	Movement in enterprise value during the financial year ($m)	(901.4)	734.4	226.7	71.7	423.8		
	Dividends paid to shareholders during the financial year ($m)	77.0	65.3	77.2	87.2	93.2		
	On market share buy-back ($m)	–	–	25.8	5.0	13.2		
	Shareholder value created[ii]							
	- per annum ($m)	(824.4)	799.7	329.7	163.9	530.2		
	- cumulative ($m) since IPO	1,268.0	2,067.7	2,397.4	2,561.2	3,091.4	21%	25%[iv]

(i) Enterprise value is measured as the sum of market capitalisation and net debt.

(ii) Shareholder value created is measured as the increase in the enterprise value, plus cash dividends and share buy-backs paid during the financial year. Cumulative shareholder value is measured from the date of listing in October 2003 when opening shareholder value was $201.7m.

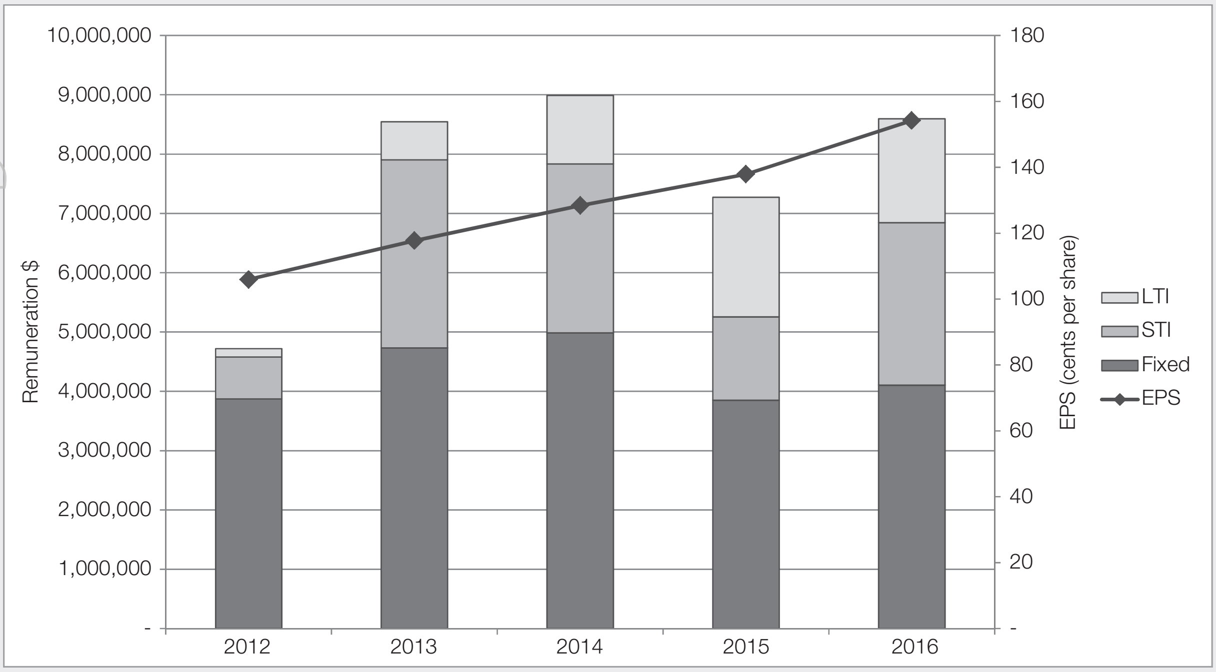
(iii) Percentage movement shown is the compound annual growth rate over the last 5 years.

(iv) Percentage movement shown is the compound annual growth rate since IPO.

The following graph shows the relationship between total executive remuneration and EPS over the past 5 years. As EPS increased from FY2015 to FY2016:

- total executive remuneration also increased in FY2016, largely as a result of a higher proportion of STI being paid based on the achievement of performance hurdles (FY2016: 98% - 100%, FY2015: 63% - 71%);
- the level of fixed pay paid to executives in FY2016 was slightly higher than FY2015 due to appointment of new executives resulting in an increase in the total number of executives, and the higher base salaries paid to continuing executives. These increases were offset to some extent because executives joining the Group in FY2016 generally did so on lower fixed pay than their predecessors who had been established in the roles for some years; and
- the expense incurred by the Company in relation to executive LTIs in FY2016 (as shown in the graph) decreased from FY2015 primarily: (i) because a number of the current executives have been with the Company for a relatively short period of time with the consequence that, in aggregate, the current executive team has significantly less accumulated LTI than the executive team in place during FY2015; and (ii) as a result of the grant of the One-Off Retention Zepos in FY2015 as detailed in the 2015 Annual Report.

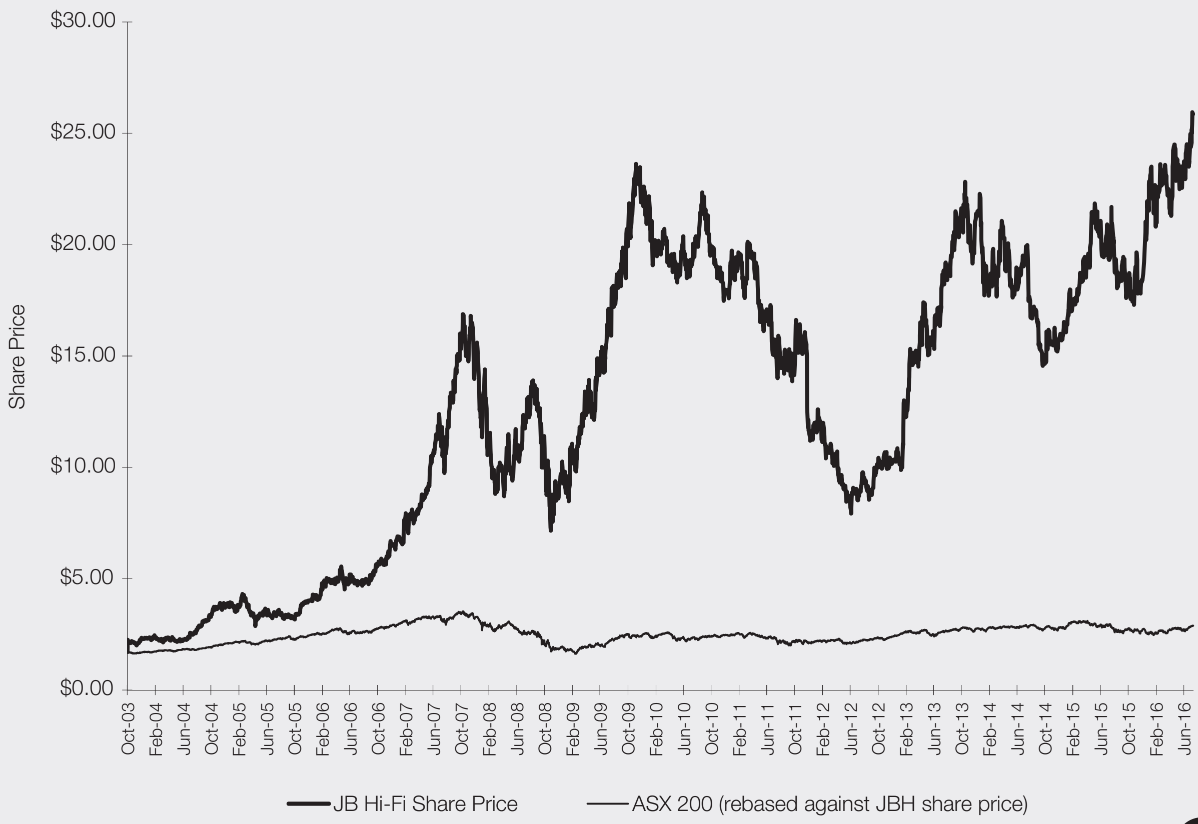
Executive remuneration and EPS over the last 5 financial years:



Notes

1. The graph shows the aggregate total of remuneration for the Company's executive team for each year from 2012 to 2016, excluding payments made in relation to departures from the Company. The number of executives engaged during each of these years varied.
2. LTI expense is the current period LTI expense only, excluding any prior period write-backs.

The effectiveness of the executives' performance related remuneration in driving performance is reflected in the long term growth of the share price of the Company. The following graph plots the JB Hi-Fi closing share price and the ASX 200 on a daily basis between listing on the ASX and 1 August 2016. The JB Hi-Fi closing share price compound annual growth rate between listing and 29 July 2016 is 23.7%, whilst the ASX 200 compound annual growth rate over the same period is 4.2%.



Key terms of executive employment agreements

The remuneration and other terms of employment for each of the executives are set out in individual Company employment agreements. None of the executives are subject to a fixed term of employment.

Name	Notice Periods/Termination Payment/Non-compete
R. Murray	12 months' notice (or payment in lieu) 12 months' post termination non-compete and non-solicitation restriction
C. Trainor	9 months' notice (or payment in lieu) if terminated by the Company 4 months' notice if terminated by the executive 9 months' post termination non-compete and non-solicitation restriction
P. Green, N. Wells, T. Carter, S. Page, J. Saretta	6 months' notice (or payment in lieu) 6 months' post termination non-compete and non-solicitation restriction

Each executive may be terminated immediately for serious misconduct.

In no instance would a payment in lieu of notice exceed the termination payments limits set out in the Corporations Act 2001.

Each of the executive service contracts other than the contract for Cameron Trainor (which was entered into in 2009, several years before the current contracts for each of the other executives) contains contractual entitlements for the Company to clawback incentive remuneration in the event of fraud, dishonesty, or material misstatements in, or omissions from, the Company's financial statements or misstatements concerning the satisfaction of a performance condition.

EXECUTIVE REMUNERATION FOR FY2017 – KEY CHANGES

The Remuneration Committee and the Board regularly review the Company's remuneration practices to ensure that they remain fit for purpose, appropriate for the Company's operating environment, aligned with evolving market trends and shareholder expectations, and continue to reward, incentivise and retain key employees. As a result of its recent review, the Company has decided to make the following changes to the remuneration framework for FY2017.

Restructure of Executive STIs for FY2017

The deferred component of short term incentive will increase from 10% to 20%. Executives will receive 80% of the FY2017 STI to which they are entitled in cash and the remaining 20% in shares which will be subject to a restriction on sale/disposal for one year after issue. The shares will be forfeited by the executive if the executive's employment is terminated for cause during the restriction period. The achievement of STI will continue to be subject to group and individual performance targets.

CEO Executive Remuneration Package

The mix of the CEO's executive remuneration package will be more heavily geared towards long-term incentive (compared to fixed remuneration and short term incentive) with the splits between fixed, short-term and long-term incentive elements for FY2017, compared to FY2016, being as follows:

Year	*Fixed*	*STI*	*LTI*	*Total*
FY2016	38%	31%	31%	100%
FY2017	36%	29%	36%	100%

NON-EXECUTIVE DIRECTOR REMUNERATION

FY2016 Non-Executive Director Remuneration

The following persons acted as non-executive directors of the Company during and since the end of the financial year and are considered members of key management personnel:

Greg Richards	Non-executive Director, Chair of the Board and Remuneration Committee
Beth Laughton	Non-executive Director, Chair of the Audit and Risk Management Committee and (from 29 October 2015) Member of the Remuneration Committee
Gary Levin	Non-executive Director, Member of the Audit and Risk Management Committee and the Remuneration Committee
Wai Tang	Non-Executive Director, Member of the Audit and Risk Management Committee (from 14 September 2015)
Richard Uechtritz	Non-executive Director
James King	Non-executive Director, Member of the Audit and Risk Management Committee and the Remuneration Committee (until 29 October 2015)

The overriding objective of the JB Hi-Fi remuneration policies with regard to non-executive directors is to ensure the Company is able to attract and retain non-executive directors with the skills and experience to ensure the Board is able to discharge its oversight and governance responsibilities in an effective and diligent manner. The Board also believes that remuneration for non-executive directors should reflect the time commitment and responsibilities of the role.

The remuneration packages for non-executive directors for FY2016 are set out below and remain unchanged from FY2015. Aggregate non-executive director remuneration remains within the amount determined by the Company in its Annual General Meeting on 12 October 2011 being $1,250,000.

Role	*Fees 2016 $*
Chairman	$270,000
Non-executive director	$130,000
Additional Committee Fees	
Remuneration Committee Chairman	$20,000
Audit and Risk Management Committee Chairman	$28,000
Audit and Risk Management Committee member	$14,000
Remuneration Committee member	$12,000

Superannuation contributions are made by the Company on behalf of non-executive directors in line with statutory requirements and are included in the remuneration package amount. It is the policy of the Company not to pay lump sum retirement benefits to non-executive directors.

It is the policy of the Company to not have any elements of non-executive director remuneration at risk. Specifically, non-executive directors do not receive any bonus payments and are not entitled to participate in any Company share option plans.

FY2017 Non-Executive Director Remuneration

For FY2017, non-executive director fees will be increased by 3% (rounded to the nearest $1,000) to take account of inflation since they were last increased in FY2015 (the FY2015 increases being the first increases since October 2010).

The Remuneration Committee will continue to review remuneration for non-executive directors on an annual basis in order to ensure that the objectives set out above in respect of non-executive directors' remuneration are met.

OTHER INFORMATION

Board Policy with regard to executives limiting their exposure to risk in relation to equity options

The Company's Securities Trading Policy prohibits directors, executives, senior management and other specified employees from altering the economic benefit or risk derived by them in relation to any unvested equity options that they hold. The Policy also requires directors and executives to obtain prior written approval from the chairman before altering the economic benefit or risk derived by them in relation to any shares or options in JB Hi-Fi held by them. Each year directors and executives are required to sign a declaration that they are in compliance with all elements of the JB Hi-Fi Securities Trading Policy. These declarations have been received in relation to the 2016 financial year from all directors and executives.

KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel for FY2016 include the non-executive directors and the eight identified executives.

The aggregate compensation of the key management personnel of the Group for FY2016 is set out below:

	Consolidated	
	2016 *$*	*2015* *$*
Short-term employee benefits		
Salary and fees	4,576,983	4,332,490
Bonus	2,728,903	1,406,286
Other	397,434	1,172,386
	7,703,320	6,911,162
Post-employment benefits		
Superannuation	284,502	265,636
	284,502	265,636
Share based payments		
Current period expense	1,751,681	1,253,128
Prior periods expense write-back	–	(393,573)
	1,751,681	859,555
	9,739,503	8,036,353

The compensation for each member of the key management personnel of the Group is set out below:

	Short-term employee benefits				**Post-employment benefits**	**Share based payments**[iii]			
2016[i]	*Salary & fees* $	*Bonus*[iii] $	*Other*[iv] $	*Total short-term employee benefits* $	*Super-annuation* $	*Current period expense*[ii] $	*Prior periods expense write-back*[ii] $	*Total Share based payments* $	*Total* $
Non-executive directors									
G. Richards	270,692	–	–	270,692	19,308	–	–	–	290,000
B. Laughton	151,683	–	–	151,683	14,410	–	–	–	166,093
G. Levin	131,000	–	–	131,000	25,000	–	–	–	156,000
W. Tang	105,206	–	–	105,206	9,995	–	–	–	115,201
R. Uechtritz	118,721	–	–	118,721	11,279	–	–	–	130,000
J. King	47,489	–	–	47,489	4,511	–	–	–	52,000
	824,791	–	–	824,791	84,503	–	–	–	909,294
Executives									
R. Murray	1,141,813	960,000	28,187	2,130,000	30,000	590,596	–	590,596	2,750,596
C. Trainor	789,143	642,857	33,000	1,465,000	35,000	550,761	–	550,761	2,050,761
P. Green	512,500	329,906	20,000	862,406	30,000	319,469	–	319,469	1,211,875
N. Wells	370,000	252,000	20,000	642,000	30,000	134,585	–	134,585	806,585
T. Carter	385,000	261,000	20,000	666,000	30,000	112,987	–	112,987	808,987
S. Page	270,577	235,140	15,462	521,179	23,192	41,242	–	41,242	585,613
J. Saretta	66,154	48,000	3,077	117,231	4,615	2,041	–	2,041	123,887
K. Ramsdale	217,005	–	257,708	474,713	17,192	–	–	–	491,905
	3,752,192	2,728,903	397,434	6,878,529	199,999	1,751,681	–	1,751,681	8,830,209
	4,576,983	2,728,903	397,434	7,703,320	284,502	1,751,681	–	1,751,681	9,739,503

(i) W. Tang joined the Board as a Non-Executive Director on 14 September 2015 and J. King retired as a non-executive director on 29 October 2015. S. Page joined the Company on 14 September 2015 and J. Saretta joined the Company on 2 May 2016. K. Ramsdale joined the Company on 7 September 2015 and left the Company on 31 March 2016.

(ii) In accordance with Accounting Standards, remuneration includes the amortisation of the fair value of options issued under the Group share option plans that are expected to vest, less any write-back on options lapsed or expected to lapse as a result of actual or expected performance against non-market hurdles ("Option Accounting Value"). The fair value of options is measured at grant date in accordance with the relevant accounting standard and progressively allocated to profit and loss over the vesting period of the option. The amount included in remuneration above may not be indicative of the benefit (if any) that key management personnel may ultimately realise should the equity instruments vest.

(iii) Performance based.

(iv) For K. Ramsdale, the amount in the "Other" column comprises $246,246 paid in relation to his departure for redundancy on 31 March 2016, and a $11,462 car allowance. For all other executives, the amount shown is comprised entirely of car allowances.

	Performance based							
	Short-term employee benefits				Share based payments			
	Maximum Potential STI		Actual STI		Maximum Potential LTI		Actual LTI[i]	
	Bonus		Bonus		Options		Options	
2016[ii]	$	% of total potential remuneration	$	% of total actual remuneration	$	% of total potential remuneration	$	% of total actual remuneration
Executives								
R. Murray	960,000	35%	960,000	35%	593,193	22%	590,596	21%
C. Trainor	642,857	31%	642,857	31%	553,358	27%	550,761	27%
P. Green	337,500	28%	329,906	27%	320,805	26%	319,469	26%
N. Wells	252,000	31%	252,000	31%	134,585	17%	134,585	17%
T. Carter	261,000	32%	261,000	32%	112,987	14%	112,987	14%
S. Page	240,000	35%	235,140	40%	41,242	6%	41,242	7%
J. Saretta	48,000	37%	48,000	43%	2,041	0%	2,041	2%
	2,741,357	33%	2,728,903	33%	1,758,211	19%	1,751,681	21%

(i) Actual LTI is equal to the sum of the current period share based payments expense and the prior periods write-back.

(ii) No information is included for K. Ramsdale as he did not receive any FY2016 STI or LTI having left the Company on 31 March 2016. Should K. Ramsdale have not left the Company, his maximum potential STI and LTI would have been $252,000 and $43,306.

	Short-term employee benefits				*Post-employment benefits*	*Share based payments[ii]*			
	Salary & fees	*Bonus[ii]*	*Other[iii]*	*Total short-term employee benefits*	*Super-annuation*	*Current period expense[i]*	*Prior periods expense write-back[i]*	*Total Share based payments*	*Total*
2015	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*
Non-executive directors									
G. Richards	269,033	–	–	269,033	20,967	–	–	–	290,000
J. King	142,466	–	–	142,466	13,534	–	–	–	156,000
B. Laughton	144,292	–	–	144,292	13,708	–	–	–	158,000
G. Levin	127,660	–	–	127,660	28,340	–	–	–	156,000
R. Uechtritz	118,721	–	–	118,721	11,279	–	–	–	130,000
	802,172	–	–	802,172	87,828	–	–	–	890,000
Executives									
R. Murray	1,041,813	523,144	28,187	1,593,144	30,000	381,122	–	381,122	2,004,266
S. Browning	390,478	–	614,105	1,004,583	16,058	–	(221,402)	(221,402)[iv]	799,239
C. Trainor	754,985	411,856	33,000	1,199,841	35,000	479,860	–	479,860	1,714,701
P. Green	487,752	223,734	20,000	731,486	30,000	257,085	–	257,085	1,018,571
G. Papadopoulos	314,251	–	440,940	755,191	16,058	5,981	(172,171)	(166,190)[iv]	605,059
N. Wells	278,539	123,776	20,000	422,315	26,461	98,185	–	98,185	546,961
T. Carter[v]	262,500	123,776	16,154	402,430	24,231	30,895	–	30,895	457,556
	3,530,318	1,406,286	1,172,386	6,108,990	177,808	1,253,128	(393,573)	859,555	7,146,353
	4,332,490	1,406,286	1,172,386	6,911,162	265,636	1,253,128	(393,573)	859,555	8,036,353

(i) In accordance with Accounting Standards, remuneration includes the amortisation of the fair value of options issued under the Group share option plans that are expected to vest, less any write-back on options lapsed or expected to lapse as a result of actual or expected performance against non-market hurdles ("Option Accounting Value"). The fair value of options is measured at grant date in accordance with the relevant accounting standard and progressively allocated to profit and loss over the vesting period of the option. The amount included in remuneration above may not be indicative of the benefit (if any) that key management personnel may ultimately realise should the equity instruments vest.

(ii) Performance based.

(iii) For S. Browning, the amount in the "Other" column comprises $596,000 paid in relation to his departure on 17 February 2015 and in return for an 11 month restraint, and a $18,105 car allowance. For G. Papadopoulos, the amount in the "Other column comprises $424,882 paid in relation to his departure on 17 February 2015 and in return for a 9 month restraint, and a $16,058 car allowance. For all other executives, the amount shown is comprised entirely of car allowances.

(iv) Share based payment expense has been impacted by the lapse of all unvested options held by S. Browning and G. Papadopoulos at the time of their departure.

(v) T. Carter joined the Company in September 2014.

2015	Performance based							
	Short-term employee benefits				Share based payments			
	Maximum Potential STI		Actual STI		Maximum Potential LTI		Actual LTI[i]	
	Bonus		*Bonus*		*Options*		*Options*	
	$	*% of total potential remuneration*	*$*	*% of total actual remuneration*	*$*	*% of total potential remuneration*	*$*	*% of total actual remuneration*
Executives								
R. Murray	825,000	35%	523,144	26%	409,131	18%	381,122	19%
S. Browning[ii]	467,772	32%	–	0%	337,015	23%	(221,402)	(28%)
C. Trainor	582,301	30%	411,856	24%	507,702	27%	479,860	28%
P. Green	316,325	28%	223,734	22%	271,333	24%	257,085	25%
G. Papadopoulos[ii]	317,208	28%	–	0%	286,830	25%	(166,190)	(27%)
N. Wells	175,000	29%	123,776	23%	99,185	16%	98,185	18%
T. Carter	175,000	30%	123,776	27%	30,895	5%	30,895	7%
	2,858,606	31%	1,406,286	20%	1,941,091	21%	859,555	12%

(i) Actual LTI is equal to the sum of the current period share based payments expense and the prior periods write-back.

(ii) S. Browning and G. Papadopoulos left the Company on 17 February 2015. The maximum potential STI and LTI disclosed is their full 12 month package.

All bonuses are paid in the financial year following the year in which they were earned, for example the 2016 financial year bonuses are paid in August 2016 (the 2017 financial year).

KEY MANAGEMENT PERSONNEL EQUITY/OPTIONS

Fully paid ordinary shares of JB Hi-Fi Limited

2016[(i)(ii)]	*Balance at 1 July 2015 No.*	*Granted as compensation No.*	*Received on exercise of options No.*	*Net other change No.*	*Balance at 30 June 2016 No.*	*Balance held nominally No.*
G. Richards	23,000	–	–	–	23,000	3,000
B. Laughton	500	–	–	1,500	2,000	–
G. Levin	30,000	–	–	–	30,000	–
W. Tang	–	–	–	2,000	2,000	2,000
R. Uechtritz	10,000	–	–	–	10,000	–
R. Murray	102,000	–	47,110	(47,110)	102,000	–
C. Trainor	–	–	47,110	(47,110)	–	–
P. Green	13	–	26,779	(24,700)	2,092	–
N. Wells	–	–	12,816	(8,333)	4,483	–
T. Carter	–	–	–	–	–	–
S. Page	–	–	–	–	–	–
J. Saretta	–	–	–	–	–	–
	165,513	–	133,815	(123,753)	175,575	5,000

(i) J. King ceased to be a non-executive director on 29 October 2015 and, at this time, held 32,258 shares in the Company nominally. J. King had no transactions with ordinary shares during the period.

(ii) K. Ramsdale left the Company on 31 March 2016 and, at this time, held no shares in the Company. During the period of his employment, K. Ramsdale had no transactions with ordinary shares.

2015[(i)(ii)]	*Balance at 1 July 2014 No.*	*Granted as compensation No.*	*Received on exercise of options No.*	*Net other change No.*	*Balance at 30 June 2015 No.*	*Balance held nominally No.*
G. Richards	23,000	–	–	–	23,000	3,000
J. King	32,258	–	–	–	32,258	32,258
B. Laughton	500	–	–	–	500	–
G. Levin	30,000	–	–	–	30,000	–
R. Uechtritz	10,000	–	–	–	10,000	–
R. Murray	102,000	–	–	–	102,000	–
C. Trainor	1,000	–	–	(1,000)	–	–
P. Green	13	–	–	–	13	–
N. Wells	–	–	11,333	(11,333)	–	–
T. Carter	–	–	–	–	–	–
	198,771	–	11,333	(12,333)	197,771	35,258

(i) S. Browning left the Company on 17 February 2015. During the period to 17 February 2015, S. Browning had no transactions with ordinary shares. At the date he left the Company, S. Browning held 41,258 ordinary shares.

(ii) G. Papadopoulos left the Company on 17 February 2015. During the period to 17 February 2015, G. Papadopoulos received 13,818 ordinary shares on exercise of options and disposed of 13,818 ordinary shares. At the date he left the Company, G. Papadopoulos held no ordinary shares.

Share options of JB Hi-Fi Limited

2016[i]	Balance at 1 July 2015 No.	Granted as compensation[ii] No.	Exercised No.	Net other change[iii] No.	Balance at 30 June 2015 No.	Balance vested at 30 June 2016 No.	Options vested during year No.
R. Murray	446,782	55,144	(47,110)	(41,372)	413,444	–	47,110
C. Trainor	408,750	24,618	(47,110)	(58,169)	328,089	–	47,110
P. Green	233,612	19,387	(26,779)	(38,075)	188,145	–	26,779
N. Wells	56,543	14,475	(12,816)	(5,000)	53,202	–	12,816
T. Carter	41,364	14,992	–	–	56,356	–	–
S. Page	–	16,438	–	–	16,438	–	–
J. Saretta	–	2,640	–	–	2,640	–	–
	1,187,051	147,694	(133,815)	(142,616)	1,058,314	–	133,815

(i) K. Ramsdale left the Company on 31 March 2016. During the period to 31 March 2016, K. Ramsdale was granted 17,261 options and did not exercise any options. At the date of his departure, K. Ramsdale held 17,261 unvested options, all of which lapsed on his departure.

(ii) Excludes any options that may be granted by the Board in August 2016. The issue of any such options to R. Murray, executive director of the Company, is also subject to shareholder approval at the Company's Annual General Meeting in October 2016.

(iii) Options lapsed during the financial year as they were not exercised prior to expiry.

2015[i][ii]	Balance at 1 July 2014 No.	Granted as compensation[iii] No.	Exercised No.	Net other change[iv] No.	Balance at 30 June 2015 No.	Balance vested at 30 June 2015 No.	Options vested during year No.
R. Murray	311,640	135,142	–	–	446,782	–	–
C. Trainor	410,346	77,248	–	(78,844)	408,750	–	–
P. Green	189,132	44,480	–	–	233,612	–	–
N. Wells	35,116	32,760	(11,333)	–	56,543	–	11,333
T. Carter	–	41,364	–	–	41,364	–	–
	946,234	330,994	(11,333)	(78,844)	1,187,051	–	11,333

(i) S. Browning left the Company on 17 February 2015. During the period to 17 February 2015, S. Browning was granted 54,978 options and did not exercise any options. At the date of his departure, S. Browning held 305,353 unvested options, all of which lapsed on his departure.

(ii) G. Papadopoulos left the Company on 17 February 2015. During the period to 17 February 2015, G. Papadopoulos was granted 44,571 options and exercised 5,000 options. At the date of his departure, G Papadopoulos held 8,818 vested options that he retained and 221,920 unvested options which lapsed on his departure.

(iii) Excludes any options that may be granted by the Board in August 2015. The issue of any such options to R. Murray, executive director of the Company, is also subject to shareholder approval at the Company's Annual General Meeting in October 2015.

(iv) Options lapsed during the financial year as they were not exercised prior to expiry.

All employee and executive share options issued to employees and executives during the financial year were made in accordance with the provisions of the Company's share option plans.

During the financial year 20,947 zero exercise price options (2015: 3,000) and 112,815 options with an exercise price (2015: 13,333) were exercised by key management personnel. The weighted average exercise price for options with an exercise price was $10.13 (2015: $14.95) per ordinary share in JB Hi-Fi Limited.

Key management personnel options granted and exercised during the financial year

The following table summarises the value of options granted and exercised during the financial year to the key management personnel:

2016	*Value of options granted – at the grant date*[i] $	*Value of options exercised – at the exercise date* $
R. Murray	961,256	514,277
C. Trainor	429,135	496,481
P. Green	337,949	288,005
N. Wells	252,325	109,348
T. Carter	261,336	–
S. Page	240,428	–
J. Saretta	48,030	–
K. Ramsdale	252,465	–
	2,782,924	1,408,111

(i) The value of options granted during the period is recognised in remuneration over the vesting period of the option, in accordance with Australian equivalents to International Financial Reporting Standards.

The value of options granted and exercised during the year is calculated based on the following:

- fair value of the option at grant date multiplied by the number of options granted; and
- fair value of the option at the time it is exercised multiplied by the number of options exercised.

Options granted during the financial year

During the financial year, an aggregate of 164,955 share options over ordinary shares in JB Hi-Fi Limited were granted to the identified key management personnel.

The terms of the options granted to the identified key management personnel are summarised in the table below:

Executive	*Series*	*Grant date (GD)*	*Number of options granted*	*Exercise price $*	*Weighted average fair value at GD*[i] *$*	*Service based vesting condition (years)*[ii]	*Expiry Date*	*Performance condition - cumulative EPS growth per annum*[iii]
R. Murray	128-130	14/08/2015	55,144	$0.00	$17.43	3 / 4 / 5	13/08/2021	4%-8%
C. Trainor	128-130	14/08/2015	24,618	$0.00	$17.43	3 / 4 / 5	13/08/2021	4%-8%
P. Green	128-130	14/08/2015	19,387	$0.00	$17.43	3 / 4 / 5	13/08/2021	4%-8%
N. Wells	128-130	14/08/2015	14,475	$0.00	$17.43	3 / 4 / 5	13/08/2021	4%-8%
T. Carter	128-130	14/08/2015	14,992	$0.00	$17.43	3 / 4 / 5	13/08/2021	4%-8%
S. Page	134-136	5/11/2015	16,438	$0.00	$14.63	3 / 4 / 5	4/11/2021	4%-8%
J. Saretta	140-142	2/05/2016	2,640	$0.00	$18.19	3 / 4 / 5	1/05/2022	4%-8%
K. Ramsdale[iv]	134-136	5/11/2015	17,261	$0.00	$14.63	3 / 4 / 5	4/11/2021	4%-8%
			164,955					

(i) The values shown are the weighted average of the relevant series listed.

(ii) One third of options within each series satisfy the service based vesting condition on the 3rd, 4th and 5th anniversary of grant date.

(iii) EPS growth is measured following satisfaction of the service based vesting condition. Options vest as follows:

- Where compound annual EPS growth of 4% is achieved 40% of the options vest;
- Where compound annual EPS growth is between 4% and 5% an additional 10% will vest on a linear basis; and
- Where compound annual EPS growth is between 5% and 8% the remaining 50% will vest on a linear basis.

(iv) K. Ramsdale left the Company on 31 March 2016. At the date of his departure, K. Ramsdale held 17,261 unvested options, all of which lapsed on his departure.

Options exercised during the financial year

The following table details the options exercised during the financial year by key management personnel.

	Series	*Number of options exercised*	*Exercise date*	*Number of shares issued*	*Exercise price $*	*Share price at exercise date $*	*Performance condition – cumulative EPS growth per annum*	*Performance condition – achieved*
R. Murray	80.1	29,941	28/08/2015	29,941	$9.75	$19.34	5%	Yes
	81.1	10,759	28/08/2015	10,759	$9.75	$19.34	5%-10%	Partially(i)
	82	4,716	28/08/2015	4,716	$0.00	$19.34	5%	Yes
	83	1,694	28/08/2015	1,694	$0.00	$19.34	5%-10%	Partially(i)
		47,100		47,100				
C. Trainor	80.1	29,941	24/08/2015	29,941	$9.75	$18.75	5%	Yes
	81.1	10,759	24/08/2015	10,759	$9.75	$18.75	5%-10%	Partially(i)
	82	4,716	18/08/2015	4,716	$0.00	$20.31	5%	Yes
	83	1,694	18/08/2015	1,694	$0.00	$20.31	5%-10%	Partially(i)
		47,100		47,100				
P. Green	80.1	17,020	27/08/2015	17,020	$9.75	$19.00	5%	Yes
	81.1	6,115	27/08/2015	6,115	$9.75	$19.00	5%-10%	Partially(i)
	82	2,681	18/08/2015	2,681	$0.00	$20.31	5%	Yes
	83	963	18/08/2015	963	$0.00	$20.31	5%-10%	Partially(i)
		26,779		26,779				
N. Wells	67.3	8,333	30/10/2015	8,333	$14.95	$17.96	n/a(ii)	n/a(ii)
	78	3,000	26/08/2015	3,000	$0.00	$18.80	n/a(ii)	n/a(ii)
	91	1,483	26/08/2015	1,483	$0.00	$18.80	n/a(ii)	n/a(ii)
		12,816		12,816				
		133,815		133,815				

(i) EPS growth of 9.2% achieved and therefore 84% of the options in the series vested on a linear basis.

(ii) Options did not contain a performance condition as they were issued prior to N. Wells becoming an executive.

No options issued to T. Carter, S. Page, J. Saretta and K. Ramsdale were exercised during the financial year.

Options lapsed during the financial year

The options issued to the identified key management personnel that lapsed during the financial year are set out below.

Financial Year Issued	**Number of options lapsed**					
	R. Murray	*C. Trainor*	*P. Green*	*N. Wells*	*K.Ramsdale(i)*	*Total*
2011	41,372	58,169	38,075	5,000	–	142,616
2012	–	–	–	–	–	–
2013	–	–	–	–	–	–
2014	–	–	–	–	–	–
2015	–	–	–	–	–	–
2016	–	–	–	–	17,261	17,261
	41,372	58,169	38,075	5,000	17,261	159,877

(i) K. Ramsdale options lapsed on his departure from JB Hi-Fi.

No options issued to T. Carter, S. Page and J. Saretta lapsed during the financial year.

Key management personnel options granted, exercised and lapsed since the end of the financial year

No options have been issued to key management personnel, and no options issued to key management personnel have been exercised, since the end of the financial year.

The options issued to the identified key management personnel that lapsed since the end of the financial year are set out below.

Financial Year Issued	Number of options lapsed			
	R. Murray	*C. Trainor*	*P. Green*	*Total*
2012	73,523	73,523	37,844	184,890
2013	–	–	–	–
2014	–	–	–	–
2015	–	–	–	–
2016	–	–	–	–
	73,523	73,523	37,844	184,890

SHARE OPTIONS

Group share option plans

The Group has share ownership-based remuneration schemes for executives and non-executive management (excluding non-executive directors). In accordance with the provisions of these schemes, executives and non-executive managers within the Group are granted options to purchase parcels of ordinary shares at various exercise prices or to acquire shares at a zero exercise price. The options currently on issue (being options issued in FY2013 and subsequent years) have the following features:

- no issue price is payable on the issue of an option;
- for some of the options issued to executives during the 2013, 2014 and 2015 financial years, an exercise price is payable on the exercise of an option. This exercise price is usually calculated as being the closing volume weighted average share price (VWAP) of JB Hi-Fi Limited shares over the 5 trading days post and including the date of release of the Group's full year results, immediately prior to the grant of the option. This price may be calculated by reference to another date, for example where a grant of options occurs other than following the release of results as a result of an executive or non-executive manager joining the Group or being promoted within the Group. For options issued since 1 July 2009 that have an exercise price payable on exercise of the option, a share price condition provides that options will only vest if, during a trading window (as defined in the Group's Securities Trading Policy), the VWAP of the shares over 5 consecutive trading days exceeds the option exercise price (at a time when all other conditions have been satisfied);
- for some of the options issued before 30 June 2015 and all options issued after 30 June 2015, a zero exercise price;
- for executives only, the majority of options are subject to performance conditions based on EPS growth. To date, options issued have been subject to performance hurdles which require compound annual earnings per share growth of between 4% and 10% per annum;
- service based conditions - the options issued to executives vest a third each on the third, fourth and fifth anniversary of the grant date provided that the executive remains employed at that time. For all options issued to non-executive management, options vest a third each on the second, third and fourth anniversary of grant date provided that the non-executive manager remains employed at that time;
- all conditions must be satisfied for an option to vest;
- to the extent that a performance condition is not achieved in one year, the hurdle is compounded and reassessed in each subsequent year, until the earlier of the condition being satisfied or the option expiring;
- options issued to non-executive management since 1 July 2012 generally expire five years after they are issued. Options issued to executives since 1 July 2012 generally expire six years after they are issued. All unvested options generally expire immediately upon termination of employment although, depending upon the terms of issue, the Company may have discretion to allow the options to continue or waive vesting conditions in certain circumstances. Upon termination of employment, vested options either expire upon termination, 30 days after termination or continue in force depending upon the circumstances of the employee's exit and the terms of issue;
- each option entitles the holder to one ordinary share in JB Hi-Fi Limited;
- holders of options do not have the right, under the options, to dividends or to participate in any share issue or interest issue of JB Hi-Fi Limited or of any other body corporate or registered scheme;
- upon a change of control of the Company all vested and unvested options will automatically lapse unless the Company determines otherwise; and
- other conditions including, amongst other things, treatment of the options in the event of a capital reorganisation.

As detailed in the Company's 2015 Annual Report, in July 2014 the Company made a one-off issue of share options with a zero exercise price and specific service-based vesting conditions to each of the executives at that time.

Shares under option

Details of interests under option at the date of this report are set out below. All options entitle the holder to ordinary shares in JB Hi-Fi Limited.

Option series	Number of shares under option	Grant date (GD)	Share Price at GD $	Expiry date	Exercise price $	Weighted average expected volatility(i)	Dividend yield at GD	Risk-free interest rate at GD	Weighted average fair value at GD(i) $
79	94,141	17/08/2012	$9.75	16/08/2017	$0.00	39.68%	6.7%	2.99%	$7.53
80-81	225,044	17/08/2012	$9.75	16/08/2018	$9.75	40.37%	6.7%	2.99%	$2.04
83-87	35,449	17/08/2012	$9.75	16/08/2018	$0.00	40.19%	6.7%	2.99%	$7.31
90	3,000	6/11/2012	$9.99	5/11/2017	$0.00	37.10%	6.4%	2.78%	$7.88
92-93	112,319	16/08/2013	$18.66	15/08/2018	$0.00	31.48%	3.8%	3.25%	$16.61
94-95	99,760	16/08/2013	$18.66	15/08/2019	$18.93	32.55%	3.8%	3.25%	$4.16
96-101	28,516	16/08/2013	$18.66	15/08/2019	$0.00	33.82%	3.8%	3.25%	$16.31
102	34,984	1/07/2014	$18.44	30/06/2020	$0.00	31.61%	4.2%	2.99%	$17.15
103-104	191,325	15/08/2014	$17.66	14/08/2020	$17.72	30.74%	4.7%	2.90%	$3.25
105-113	63,321	15/08/2014	$17.66	14/08/2020	$0.00	31.82%	4.7%	2.90%	$14.73
114-116	178,965	15/08/2014	$17.66	14/08/2019	$0.00	32.13%	4.7%	2.90%	$15.43
117-118	31,870	27/11/2014	$15.56	26/11/2020	$15.58	30.94%	5.4%	2.63%	$2.51
119-127	9,494	27/11/2014	$15.56	26/11/2020	$0.00	31.58%	5.4%	2.63%	$12.64
128-130	128,616	14/08/2015	$20.79	13/08/2021	$0.00	30.88%	4.4%	2.19%	$17.43
131-133	183,363	14/08/2015	$20.79	13/08/2020	$0.00	30.15%	4.4%	2.19%	$18.19
134-136	16,438	5/11/2015	$17.63	4/11/2021	$0.00	30.90%	5.1%	2.19%	$14.63
137-139	2,240	18/12/2015	$18.36	17/12/2020	$0.00	29.74%	5.0%	2.24%	$15.63
140-142	2,640	2/05/2016	$22.18	1/05/2022	$0.00	30.11%	4.2%	2.06%	$18.19
	1,441,485								

(i) The values shown are the weighted average for the relevant series listed.

As at 15 August 2016, 94,619 options are vested and exercisable. In addition up to 321,005 additional options will vest and become exercisable in August 2016, subject to the satisfaction of the relevant service, performance and share price vesting conditions.

The weighted average fair value of the share options granted during the financial year is $17.57 (2015: $10.09). Options were valued using the Black-Scholes option pricing model, which takes into account the exercise price, the term of the option, the expected exercise date based on prior years' experience, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate.

The following tables include all share options granted under the Group share option plans that were exercised during and since the end of the current financial year and during the previous financial year. All shares were ordinary shares issued by JB Hi-Fi Limited and no amounts remain unpaid.

2016

Option Series	Grant date	Number exercised	Number of shares issued	Amount paid per share $	Share price at exercise date(i) $
62	13/08/2010	12,833	12,833	$19.75	$20.96
66	2/06/2011	32,322	32,322	$17.03	$20.05 to $22.00
67	12/08/2011	184,992	184,992	$14.95	$17.96 to $22.00
72	27/09/2011	5,000	5,000	$14.73	$17.84
73	29/11/2011	10,000	10,000	$15.30	$22.67
76	31/07/2012	32,520	32,520	$8.74	$20.03
78	17/08/2012	105,676	105,676	$0.00	$18.75 to $22.41
80	17/08/2012	141,414	141,414	$9.75	$18.75 to $19.34
81	17/08/2012	50,815	50,815	$9.75	$18.75 to $19.34
82	17/08/2012	22,274	22,274	$0.00	$19.34 to $20.31
83	17/08/2012	8,002	8,002	$0.00	$19.34 to $20.31
89	6/11/2012	3,000	3,000	$0.00	$17.84
91	16/08/2013	63,001	63,001	$0.00	$18.80 to $21.41
		671,849	671,849		

(i) Where a range of prices are shown, options within the series were exercised on various dates throughout the period. The share prices shown are the maximum and minimum share prices on the exercise dates for the relevant series.

2015

Option Series	Grant date	Number exercised	Number of shares issued	Amount paid per share $	Share price at exercise date(i) $
65	1/12/2010	8,818	8,818	$18.75	$21.06
66	2/06/2011	10,774	10,774	$17.03	$17.21
67	12/08/2011	156,492	156,492	$14.95	$16.72 to $17.63
73	29/11/2011	10,000	10,000	$15.30	$17.21
76	31/07/2012	65,040	65,040	$8.74	$17.07 to $20.03
77	17/08/2012	112,352	112,352	$0.00	$16.72 to $17.07
78	17/08/2012	3,000	3,000	$0.00	$20.03
88	6/11/2012	3,000	3,000	$0.00	$16.17
91	16/08/2013	1,483	1,483	$0.00	$20.03
		370,959	370,959		

(i) Where a range of prices are shown, options within the series were exercised on various dates throughout the period. The share prices shown are the maximum and minimum share prices on the exercise dates for the relevant series.

Long-term incentives subject to performance conditions

Certain executives have been issued with options under the Group share option plans as part of the Company's long-term incentive program. Details of the features and conditions of such options are included in the section of this report entitled "Group share option plans". The following table details the options outstanding at the date of this report which feature performance hurdles:

Option Series	*Grant Date*	*Performance Hurdle*[(i)(ii)]	*Date for testing*	*Relevant Financial Year*	*Exercise Price $*	*Expiry Date*
Not vested (Time based service condition achieved but performance hurdle not fully achieved						
80-81	17/08/2012	5%-10%	17/08/2015	2015	$9.75	16/08/2018
82-83	17/08/2012	5%-10%	17/08/2015	2015	$0.00	16/08/2018
Not vested (performance hurdle partially achieved but time based service condition not achieved)						
80-81	17/08/2012	5%-10%	17/08/2016	2016	$9.75	16/08/2018
84-85	17/08/2012	5%-10%	17/08/2016	2016	$0.00	16/08/2018
94-95	16/08/2013	5%-10%	16/08/2016	2016	$18.93	15/08/2019
96-97	16/08/2013	5%-10%	16/08/2016	2016	$0.00	15/08/2019
Not vested (time based service condition and performance hurdle not achieved)						
80-81	17/08/2012	5%-10%	17/08/2017	2017	$9.75	16/08/2018
86-87	17/08/2012	5%-10%	17/08/2017	2017	$0.00	16/08/2018
94-95	16/08/2013	5%-10%	16/08/2017	2017	$18.93	15/08/2019
94-95	16/08/2013	5%-10%	16/08/2018	2018	$18.93	15/08/2019
98-99	16/08/2013	5%-10%	16/08/2017	2017	$0.00	15/08/2019
100-101	16/08/2013	5%-10%	16/08/2018	2018	$0.00	15/08/2019
103-104	15/08/2014	5%-10%	15/08/2017	2017	$17.72	14/08/2020
103-104	15/08/2014	5%-10%	15/08/2018	2018	$17.72	14/08/2020
103-104	15/08/2014	5%-10%	15/08/2019	2019	$17.72	14/08/2020
105-106	15/08/2014	5%-10%	15/08/2017	2017	$0.00	14/08/2020
107-108	15/08/2014	5%-10%	15/08/2018	2018	$0.00	14/08/2020
109-110	15/08/2014	5%-10%	15/08/2019	2019	$0.00	14/08/2020
117-118	27/11/2014	5%-10%	27/11/2017	2017	$15.58	26/11/2020
117-118	27/11/2014	5%-10%	27/11/2018	2018	$15.58	26/11/2020
117-118	27/11/2014	5%-10%	27/11/2019	2019	$15.58	26/11/2020
119-120	27/11/2014	5%-10%	27/11/2017	2017	$0.00	26/11/2020
121-122	27/11/2014	5%-10%	27/11/2018	2018	$0.00	26/11/2020
123-124	27/11/2014	5%-10%	27/11/2019	2019	$0.00	26/11/2020
128	14/08/2015	4%-8%	14/08/2018	2018	$0.00	13/08/2021
129	14/08/2015	4%-8%	14/08/2019	2019	$0.00	13/08/2021
130	14/08/2015	4%-8%	14/08/2020	2020	$0.00	13/08/2021
134	5/11/2015	4%-8%	5/11/2018	2018	$0.00	4/11/2021
135	5/11/2015	4%-8%	5/11/2019	2019	$0.00	4/11/2021
136	5/11/2015	4%-8%	5/11/2020	2020	$0.00	4/11/2021
140	2/05/2016	4%-8%	2/05/2019	2018	$0.00	1/05/2022
141	2/05/2016	4%-8%	2/05/2020	2019	$0.00	1/05/2022
142	2/05/2016	4%-8%	2/05/2021	2020	$0.00	1/05/2022

(i) For options shown with a 5%-10% performance hurdle, 70% of the options vest where compound annual EPS growth is 5%, and where compound annual EPS growth is between 5% and 10% the remainder of options vest on a linear basis.

(ii) For options shown with a 4%-8% performance hurdle, options vest as follows:

- Where compound annual EPS growth of 4% is achieved 40% of the options vest;
- Where compound annual EPS growth is between 4% and 5% an additional 10% will vest on a linear basis; and
- Where compound annual EPS growth is between 5% and 8% the remaining 50% will vest on a linear basis.

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

Board of Directors
JB Hi-Fi Limited
Level 4, Office Tower 2
Chadstone Shopping Centre
1341 Dandenong Road
Chadstone VIC 3148

15 August 2016

Dear Board Members

JB Hi-Fi Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of JB Hi-Fi Limited.

As lead audit partner for the audit of the financial statements of JB Hi-Fi Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Reid
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JB HI-FI LIMITED

Report on the Financial Report

We have audited the accompanying financial report of JB Hi-Fi Limited (the company), which comprises the balance sheet as at 30 June 2016, the statement of profit or loss, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 54 to 90.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of JB Hi-Fi Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of JB Hi-Fi Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 28 to 50 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of JB Hi-Fi Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Reid
Partner
Chartered Accountants

Melbourne
15 August 2016

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements;

(c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and

(d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 21 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Greg Richards
Chairman

Richard Murray
Chief Executive Officer

Melbourne
15 August 2016

	Notes	Consolidated 2016 $'000	Consolidated 2015 $'000
Revenue		3,954,467	3,652,136
Cost of sales		(3,089,059)	(2,853,883)
Gross profit		865,408	798,253
Other income		546	631
Sales and marketing expenses		(404,575)	(374,084)
Occupancy expenses		(173,792)	(160,216)
Administration expenses		(27,174)	(27,711)
Other expenses		(38,717)	(35,414)
Finance costs	5	(3,857)	(5,927)
Profit before tax		217,839	195,532
Income tax expense	6	(65,658)	(59,021)
Profit for the year attributable to Owners of the Company		152,181	136,511
		Cents	*Cents*
Earnings per share			
Basic (cents per share)	3	153.76	137.91
Diluted (cents per share)	3	152.13	136.46

The above statement of profit or loss should be read in conjunction with the accompanying notes.

	Consolidated	
	2016 $'000	*2015 $'000*
Profit for the year	152,181	136,511
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Changes in the fair value of cash flow hedges (net of tax)	70	1
Exchange differences on translation of foreign operations	3,915	(2,509)
Other comprehensive income for the year (net of tax)	3,985	(2,508)
Total comprehensive income for the year attributable to Owners of the Company	156,166	134,003

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

	Notes	Consolidated 2016 $'000	2015 $'000
ASSETS			
Current assets			
Cash and cash equivalents		51,884	49,131
Trade and other receivables	8	98,073	81,480
Inventories	7	546,437	478,871
Other current assets		6,124	7,419
Total current assets		702,518	616,901
Non-current assets			
Plant and equipment	9	183,570	176,208
Deferred tax assets	6	20,703	17,363
Intangible assets	10	85,590	84,541
Total non-current assets		289,863	278,112
Total assets		992,381	895,013
LIABILITIES			
Current liabilities			
Trade and other payables	11	384,928	325,604
Provisions		46,032	40,585
Other current liabilities	13	4,953	4,566
Current tax liabilities		10,920	9,474
Other financial liabilities		–	107
Total current liabilities		446,833	380,336
Non-current liabilities			
Borrowings	15	109,736	139,461
Provisions		6,381	6,073
Other non-current liabilities	13	24,729	25,664
Total non-current liabilities		140,846	171,198
Total liabilities		587,679	551,534
Net assets		404,702	343,479
EQUITY			
Contributed equity	16	49,264	56,521
Reserves	17	27,140	17,636
Retained earnings		328,298	269,322
Total equity		404,702	343,479

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

Consolidated	Notes	Contributed equity $'000	Equity settled benefits reserve $'000	Foreign currency translation reserve $'000	Hedging reserves $'000	Common control reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2014		58,383	17,950	3,590	779	(6,054)	219,985	294,633
Profit for the year		–	–	–	–	–	136,511	136,511
Cash flow hedges (net of tax)		–	–	–	1	–	–	1
Exchange difference on translation of foreign operations		–	–	(2,509)	–	–	–	(2,509)
Total comprehensive income for the year		–	–	(2,509)	1	–	136,511	134,003
Issue of shares under share option plans	16	3,125	–	–	–	–	–	3,125
Share buy-back	16	(4,970)	–	–	–	–	–	(4,970)
Share issue costs (net of tax)	16	(17)	–	–	–	–	–	(17)
Dividends provided for or paid	4	–	–	–	–	–	(87,174)	(87,174)
Share-based payments - expense		–	3,508	–	–	–	–	3,508
Share-based payments - income tax		–	371	–	–	–	–	371
Balance at 30 June 2015		56,521	21,829	1,081	780	(6,054)	269,322	343,479
Balance at 1 July 2015		56,521	21,829	1,081	780	(6,054)	269,322	343,479
Profit for the year		–	–	–	–	–	152,181	152,181
Cash flow hedges (net of tax)		–	–	–	70	–	–	70
Exchange difference on translation of foreign operations		–	–	3,915	–	–	–	3,915
Total comprehensive income for the year		–	–	3,915	70	-	152,181	156,166
Issue of shares under share option plans	16	5,955	–	–	–	–	–	5,955
Share buy-back	16	(13,181)	–	–	–	–	–	(13,181)
Share issue costs (net of tax)	16	(31)	–	–	–	–	–	(31)
Dividends provided for or paid	4	–	–	–	–	–	(93,205)	(93,205)
Share-based payments - expense		–	4,307	–	–	–	–	4,307
Share-based payments - income tax		–	1,212	–	–	–	–	1,212
Balance at 30 June 2016		49,264	27,348	4,996	850	(6,054)	328,298	404,702

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

	Notes	Consolidated 2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts from customers		4,355,750	4,012,130
Payments to suppliers and employees		(4,101,228)	(3,767,211)
Interest and bill discounts received		521	552
Interest and other finance costs paid		(3,657)	(5,689)
Income taxes paid		(66,246)	(59,886)
Net cash inflow from operating activities	14	185,140	179,896
Cash flows from investing activities			
Acquisition of non-controlling interests		–	(2,400)
Payments for plant and equipment	9	(52,343)	(42,466)
Proceeds from sale of plant and equipment		342	496
Net cash (outflow) from investing activities		(52,001)	(44,370)
Cash flows from financing activities			
Proceeds from issues of equity securities	16	5,955	3,125
Repayment of borrowings		(30,000)	(40,113)
Payments for debt issue costs		(90)	(484)
Payment for shares bought back	16	(13,181)	(4,970)
Share issue costs		(44)	(24)
Dividends paid to owners of the Company	4	(93,205)	(87,174)
Net cash (outflow) from financing activities		(130,565)	(129,640)
Net increase in cash and cash equivalents		2,574	5,886
Cash and cash equivalents at the beginning of the financial year		49,131	43,445
Effects of exchange rate changes on cash and cash equivalents		179	(200)
Cash and cash equivalents at end of year		51,884	49,131

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

Contents of the notes to the consolidated financial statements

1 ABOUT THIS REPORT

These are the consolidated financial statements of JB Hi-Fi Limited (Company or parent entity) and its controlled entities. JB Hi-Fi Limited and its subsidiaries together are referred to in this financial report as the Group. For the purposes of preparing the consolidated financial statements the Company is a for-profit entity.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

(i) Compliance with IFRS

The consolidated financial statements of JB Hi-Fi Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

These financial statements have been prepared under the historical cost convention, except for financial assets and liabilities (including derivative instruments), and certain classes of plant and equipment measured at fair value.

(iii) Corporation information

JB Hi-Fi Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is Level 4, Office Tower 2, Chadstone Place, Chadstone Shopping Centre, 1341 Dandenong Road, Chadstone, Victoria.

The financial statements were authorised for issue by the directors on 15 August 2016.

(b) Rounding off of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the financial report are rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar.

(c) Sections

The notes in these financial statements have been organised into the following sections to help users find and understand the information they need to know:

(i) **Group Performance:** focuses on the results and performance of the Group;

(ii) **Operating Assets and Liabilities:** provides information on the assets and liabilities used to generate the Group's performance;

(iii) **Capital Structure and Risk Management:** outlines how the Group manages its capital and various financial risks;

(iv) **Group Structure:** explains aspects of the group structure and how any changes have affected the financial position and performance of the Group; and

(v) **Other Disclosures:** provides information on items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements.

(d) Critical accounting estimates and assumptions

Estimates and judgements used in the preparation of these financial statements 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 Group and that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included in the following notes:

Judgement Area	Note
Inventories	7
Impairment of goodwill and other intangible assets	10
Employee benefits	12
Share based payments expense	25

GROUP PERFORMANCE

2 SEGMENT INFORMATION

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer that are used to make strategic and operating decisions.

The Chief Executive Officer considers the business primarily from a geographic perspective. On this basis, management has identified two reportable segments, Australia and New Zealand. The Chief Executive Officer monitors the performance of these two geographic segments separately. The Group does not operate in any other geographic segment.

(b) Segment information provided to the Chief Executive Officer

The segment information provided to the Chief Executive Officer for the reportable segments for the year ended 30 June 2016 is as follows:

2016	*Australia $'000*	*New Zealand $'000*	*Total $'000*
Revenue from external customers	3,739,358	215,109	3,954,467
EBITDA	258,215	3,861	262,076
Total segment assets	969,236	75,124	1,044,360
Additions to plant and equipment	47,035	5,308	52,343
Depreciation and impairment	37,945	3,584	41,529
Total segment liabilities	568,163	19,852	588,015

2015	*Australia $'000*	*New Zealand $'000*	*Total $'000*
Revenue from external customers	3,456,016	196,120	3,652,136
EBITDA	236,223	3,808	240,031
Total segment assets	876,096	70,632	946,728
Additions to plant and equipment	37,841	4,625	42,466
Depreciation and impairment	37,895	2,348	40,243
Total segment liabilities	531,635	19,970	551,605

(i) EBITDA

The Chief Executive Officer assesses the performance of the operating segments based on a measure of EBITDA.
This measurement basis excludes the effects of interest revenue, finance costs, income tax, depreciation and amortisation, and non-operating intercompany charges.

A reconciliation of operating EBITDA to operating profit before income tax is provided as follows:

	Consolidated	
	2016 $'000	*2015 $'000*
Operating EBITDA	262,076	240,031
Interest revenue	521	552
Finance costs	(3,857)	(5,927)
Depreciation and amortisation	(40,901)	(39,124)
Profit before income tax from continuing operations	217,839	195,532

2 SEGMENT INFORMATION (continued)

(b) Segment information provided to the Chief Executive Officer (continued)

(ii) Segment assets and liabilities

The amounts provided to the Chief Executive Officer with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. These assets and liabilities are allocated based on the operations of the segment or the physical location of the asset.

Reportable segments' assets and liabilities are reconciled to total assets and liabilities as follows:

	Consolidated	
	2016 *$'000*	*2015* *$'000*
Segment assets	1,044,360	946,728
Intersegment eliminations	(51,979)	(51,715)
Total assets as per the balance sheet	992,381	895,013
Segment liabilities	588,015	551,605
Intersegment eliminations	(336)	(71)
Total liabilities as per the balance sheet	587,679	551,534

(c) Product information

The Group operates in one product and services segment, being the sale of consumer electronics products and services, including televisions, audio equipment, computers, cameras, telecommunications products and services, software, musical instruments, whitegoods, cooking products, small appliances, digital content and information technology and consulting services.

	Consolidated 2016 Cents	Consolidated 2015 Cents
3 EARNINGS PER SHARE		
Basic (cents per share)	153.76	137.91
Diluted (cents per share)	152.13	136.46

	Consolidated 2016 $'000	Consolidated 2015 $'000
(a) Reconciliation of earnings used in calculating earnings per share		
Basic earnings per share		
Profit for the year attributable to owners of the Company	152,181	136,511
Diluted earnings per share		
Profit for the year attributable to owners of the Company	152,181	136,511

	Consolidated 2016 Number '000	Consolidated 2015 Number '000
(b) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	98,976	98,982
Adjustments for calculation of diluted earnings per share:		
Options	1,061	1,055
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	100,037	100,037

(c) Information concerning the classification of securities

Options

Options granted under the Company's share option plans are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive (1,060,513 options are considered dilutive (2015: 1,055,452), 518,494 are considered anti-dilutive (2015: 1,273,774)). The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 25.

	2016		2015	
	Cents per share	*$'000*	*Cents per share*	*$'000*
4 DIVIDENDS				
Recognised amounts				
Final Dividend - previous financial year	31.00	30,869	29.00	28,778
Interim Dividend - current financial year	63.00	62,336	59.00	58,396
	94.00	93,205	88.00	87,174
Unrecognised amounts				
Final Dividend - current financial year	37.00	36,610	31.00	30,869

In respect of the financial year ended 30 June 2016, the directors have recommended the payment of a final dividend of 37.0 cents per share. The record date is 26 August 2016.

All dividends declared and subsequently paid by the Company are franked to 100% at the 30% corporate income tax rate.

	Consolidated	
	2016 $'000	*2015 $'000*
(a) Franking account balance		
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2015: 30.0%)	161,689	133,964

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for franking credits that will arise from the payment of the amount of the provision for income tax.

The impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $15,690 thousand (2015: $13,152 thousand).

	Consolidated	
	2016 $'000	*2015 $'000*
5 EXPENSES		
Profit before income tax includes the following specific expenses:		
Finance costs		
Interest on loans	3,477	5,446
Fair value loss on interest swaps designated as cash flow hedges - transfer from equity	92	111
Other interest expense	288	370
	3,857	5,927
Rental expense relating to operating leases		
Minimum lease payments	102,290	94,672
Employee benefits expenses		
Defined contribution superannuation expense	30,229	27,910
Share-based payments - expense	4,307	3,508
Other employee benefits	365,452	337,923
	399,988	369,341

	Consolidated 2016 $'000	Consolidated 2015 $'000
6 TAXATION		
(a) Income tax expense		
Current tax	61,892	56,567
Deferred tax	3,766	2,454
	65,658	59,021
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	217,839	195,532
Tax at the Australian tax rate of 30.0% (2015: 30.0%)	65,352	58,660
Effect of expenses that are not deductible in determining taxable profit	1,285	1,069
Effect of different tax rates of subsidiaries operating in other jurisdictions	(20)	(33)
Effect of other deductibles in determining taxable profit	(1,051)	(433)
Other	92	(242)
	65,658	59,021
(c) Amounts recognised directly in equity		
The following current and deferred amounts were charged directly to equity during the period:		
Current tax		
Tax effect of employee share options in reserves	(1,212)	(371)
Deferred tax		
Tax effect of hedge gains/(loss) in reserves	30	–
Tax effect of share issue costs charged to issued capital	(13)	(7)
	(1,195)	(378)
(d) Deferred tax		
The balance comprises temporary differences attributable to:		
Deferred tax assets		
Tax losses	385	1,002
Provisions	22,338	21,359
Trade and other receivables	142	127
Inventories	2,974	2,841
Trade and other payables	1,001	804
Cash flow hedges	–	31
	26,840	26,164
Deferred tax liabilities		
Trade and other receivables	(1,287)	(1,493)
Plant and equipment	(4,850)	(7,308)
	(6,137)	(8,801)
Net deferred tax assets	20,703	17,363

All movements in the above temporary differences have been charged to income except for the movement in cash flow hedges which has been charged to equity.

6 TAXATION (continued)

(e) Recognition and measurement

Current tax

Current tax represents the amount expected to be paid to taxation authorities on taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities under financial reporting and taxation purposes. Deferred tax is measured at the rates that are expected to apply in the period in which the liability is settled or asset realised, based on tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit or in relation to the initial recognition of goodwill.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case, the tax is also recognised directly in equity.

(f) Tax consolidation legislation

The Company and its wholly owned Australian resident entities are part of a tax consolidated group and are therefore taxed as a single entity. The head entity within the tax consolidated group is JB Hi-Fi Limited. The members of the tax consolidated group are identified at note 20.

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax consolidated group).

Where the tax contribution amount recognised by each member of the tax consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

(g) Nature of tax funding and tax sharing agreements

Entities within the tax consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, JB Hi-Fi Limited and each of the entities in the tax consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group.

The tax sharing agreement entered into between members of the tax consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax consolidated group is limited to the amount payable to the head entity under the tax funding agreement.

JB Hi-Fi calculates deferred taxes in relation to investments within the tax consolidated group using the 'change in tax status' view. This view results in no deferred tax being recognised until such time as an entity leaves the tax-consolidated group.

OPERATING ASSETS AND LIABILITIES

	Consolidated 2016 $'000	Consolidated 2015 $'000
7 INVENTORIES		
Finished goods	546,437	478,871

(a) Recognition and measurement

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of inventories are determined after deducting rebates and discounts. Net realisable value represents the estimated selling price less all estimated costs necessary to make the sale.

Determining the net realisable value of inventories relies on key assumptions that require the use of management judgement. These key assumptions are the variables affecting the expected selling price and are reviewed annually. Any reassessment of the selling price in a particular year will affect the cost of goods sold.

	Consolidated 2016 $'000	Consolidated 2015 $'000
8 TRADE AND OTHER RECEIVABLES		
Trade receivables	31,505	28,113
Allowance for doubtful debts	(478)	(431)
	31,027	27,682
Non-trade receivables	67,046	53,798
	98,073	81,480

(a) Terms and conditions

Trade receivables

The average credit period on account sales of goods is 30 days. No interest is charged on trade receivables. An allowance has been made for estimated irrecoverable amounts arising from a review of individual debtors. Credit insurance is carried for commercial debtor accounts. Trade receivables are recognised at amortised cost less provision for impairment.

Non-trade receivables

Non-trade receivables principally represent rebates receivable from suppliers for purchases of inventories. No amount is considered irrecoverable from suppliers and therefore no allowance has been made.

	Consolidated 2016 $'000	Consolidated 2015 $'000
(b) Ageing of trade receivables		
Not past due	28,908	25,511
Past due but not impaired:		
0 - 30 days	1,334	1,830
31 - 60 days	759	341
61 - 90 days	26	–
91+ days	–	–
	31,027	27,682
(c) Movements in allowance for doubtful debts		
Balance at the beginning of the year	431	449
Provision for impairment recognised during the year	162	111
Receivables written off during the year as uncollectable	(115)	(129)
	478	431

8 TRADE AND OTHER RECEIVABLES (continued)

	Consolidated 2016 $'000	2015 $'000
(d) Ageing of impaired trade receivables		
0 - 31 days	–	–
31 - 60 days	–	–
61 - 90 days	397	260
91+ days	81	171
	478	431

(e) Collectability of trade receivables

Collectability of trade receivables is reviewed on an ongoing basis. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment allowance is the difference between the asset's carrying amount and the amount expected to be collected.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

The Group has not impaired all debts that are past due at the reporting date as the Group considers the majority of these amounts to be recoverable. The Group does not hold any collateral over trade receivables with the exception of retention of title for certain customers.

	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
9 PLANT AND EQUIPMENT			
At 1 July 2014			
Cost	231,173	135,119	366,292
Accumulated depreciation and impairment	(113,223)	(71,505)	(184,728)
Net book amount	117,950	63,614	181,564
Year ended 30 June 2015			
Opening net book amount	117,950	63,614	181,564
Exchange differences	(394)	(218)	(612)
Additions	25,899	16,567	42,466
Disposals	(4,530)	(2,437)	(6,967)
Depreciation charge	(22,987)	(16,137)	(39,124)
Impairment charge	(1,119)	–	(1,119)
Closing net book amount	114,819	61,389	176,208
At 30 June 2015			
Cost	240,819	143,691	384,510
Accumulated depreciation and impairment	(126,000)	(82,302)	(208,302)
Net book amount	114,819	61,389	176,208
Year ended 30 June 2016			
Opening net book amount	114,819	61,389	176,208
Exchange differences	656	346	1,002
Additions	32,649	19,694	52,343
Disposals	(4,014)	(440)	(4,454)
Depreciation charge	(23,275)	(17,626)	(40,901)
Impairment charge	(288)	(340)	(628)
Closing net book amount	120,547	63,023	183,570
At 30 June 2016			
Cost	259,013	160,365	419,378
Accumulated depreciation and impairment	(138,466)	(97,342)	(235,808)
Net book amount	120,547	63,023	183,570

(a) Recognition and measurement

Plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment (if any). Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided on plant and equipment and leasehold improvements. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The following estimated useful lives are used in the calculation of depreciation:

- Leasehold improvements 1 to 15 years
- Plant and equipment 1.5 to 15 years

Plant and equipment is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognised in the profit or loss.

	Goodwill $'000	Brand names $'000	Location premiums $'000	Rights to profit share $'000	Total $'000
10 INTANGIBLE ASSETS					
Year ended 30 June 2015					
Opening net book amount	36,194	43,094	2,388	3,542	85,218
Exchange differences	(677)	–	–	–	(677)
Closing net book amount	35,517	43,094	2,388	3,542	84,541
Year ended 30 June 2016					
Opening net book amount	35,517	43,094	2,388	3,542	84,541
Exchange differences	1,049	–	–	–	1,049
Closing net book amount	36,566	43,094	2,388	3,542	85,590

(a) Recognition and measurement

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets acquired at the date of acquisition.

Brand names, location premiums and rights to profit share are assessed as having indefinite useful lives and relate to the Australian cash generating unit. This assessment reflects management's intention to continue to utilise these intangible assets into the foreseeable future. Each period, the useful life of these assets are reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the assets.

Intangible assets that have an indefinite useful life are carried at cost less accumulated impairment losses.

(b) Impairment testing

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ('CGUs'), or groups of CGUs, expected to benefit from the synergies of the business combination.

If the recoverable amount of the CGU (or groups of CGUs) is less than the carrying amount of the CGU (or groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to the other assets in the CGU (or groups of CGUs) pro rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss.

On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

The carrying amount of goodwill is allocated to the following cash generating units (CGUs) or groups of CGUs for impairment testing purposes:

	Consolidated	
	2016 $'000	2015 $'000
JB Hi-Fi Australia	13,724	13,724
Impact Records (store acquisition)	1,727	1,727
JB Hi-Fi New Zealand	14,718	13,669
JB Solutions division (Commercial)	6,397	6,397
	36,566	35,517

10 INTANGIBLE ASSETS (continued)

(b) Impairment testing (continued)

The recoverable amount of each CGU (or group of CGUs) has been determined based on value in use calculations which use cash flow projections from financial budgets approved by management covering a five year period, using a discount rate of 11.0% for JB Hi-Fi Australia, Impact Records and JB Solutions division (2014: 11.0%) and 11.5% for JB Hi-Fi New Zealand (2014: 11.5%). The cash flows beyond the budget period have been extrapolated using a steady 2% long term growth rate (2014: 2%) which is consistent with the projected long term average growth rate for the consumer products market.

The key assumptions used in the value in use calculations include sales growth, cost of doing business (CODB) efficiencies and the discount rate. The assumptions regarding sales growth and CODB efficiencies are based on past experience and the Company's forecast operating and financial performance for each CGU (or group of CGUs). The discount rate is derived from the Group's weighted average cost of capital, adjusted for varying risk profiles.

	Consolidated	
	2016 $'000	*2015 $'000*
11 TRADE AND OTHER PAYABLES		
Trade payables	302,141	253,712
Goods and services tax (GST) payable	21,407	18,293
Other creditors and accruals	16,267	11,972
Deferred income	45,113	41,627
	384,928	325,604

Trade payables and other creditors and accruals represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are stated at amortised cost. The amounts are unsecured and are usually settled within 45 days of recognition.

	Consolidated	
	2016 $'000	*2015 $'000*
12 PROVISIONS		
Current		
Employee benefits	44,038	38,750
Lease provision	1,994	1,835
	46,032	40,585
Non-current		
Employee benefits	4,881	4,323
Lease provision	1,500	1,750
	6,381	6,073

(a) Recognition and measurement

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(i) Employee benefits

Liabilities for wages and salaries, including non-monetary benefits, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and unpaid bonuses are recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

12 PROVISIONS (continued)

(a) Recognition and measurement (continued)

(i) Employee benefits (continued)

Contributions to defined contribution superannuation plans are expensed when employees have rendered services entitling them to the contributions.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees, up to the end of the reporting period. Expected future payments are discounted using the Australian corporate bond discount rate curve as published by Milliman with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- future increases in wages and salaries;
- future on cost rates; and
- experience of employee departures and period of service.

(ii) Lease provision

The lease provision includes the Group's best estimate of the amount required to return the Group's leased premises to their original condition, taking into account due consideration of the Group's past history of vacating stores and the Group's best estimate of onerous lease obligations.

	Consolidated	
	2016 $'000	*2015 $'000*
13 OTHER LIABILITIES		
Current		
Lease accrual	2,029	1,836
Lease incentive	2,924	2,730
	4,953	4,566
Non-current		
Lease accrual	11,451	12,472
Lease incentive	13,278	13,192
	24,729	25,664

(a) Lease accrual

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight line basis over the period of the lease. The lease accrual represents the difference between the expense incurred and the payments made.

(b) Lease incentives

In the event that lease incentives (for example rent free periods and upfront capital contributions) are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight line basis over the period of the lease.

CAPITAL STRUCTURE AND RISK MANAGEMENT

14 NOTES TO THE CASH FLOW STATEMENT

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks, net of outstanding bank overdrafts.

(a) Reconciliation of net cash inflow from operating activities to profit

	Consolidated	
	2016 $'000	*2015 $'000*
Profit for the year	152,181	136,511
Depreciation and amortisation	40,901	39,124
Impairment of plant and equipment	628	1,119
Non-cash employee benefits expense - share-based payments	4,307	3,508
Net loss on sale of non-current assets	4,112	6,471
Fair value adjustment to derivatives	–	111
Change in operating assets and liabilities net of effects from acquisition of businesses:		
(Increase) decrease in inventories	(64,825)	(22,011)
(Increase) decrease in current receivables	(16,302)	(10,836)
(Increase) decrease in other current assets	1,308	(2,097)
(Increase) decrease in deferred tax assests	(3,340)	(2,454)
(Decrease) increase in current payables	58,187	25,892
(Decrease) increase in current provisions	5,327	3,817
(Decrease) increase in other current liabilities	266	491
(Decrease) increase in non-current provisions	308	(2,627)
(Decrease) increase in other non-current liabilities	(700)	1,279
(Decrease) increase in current tax liabilities	2,782	1,598
Net cash inflow from operating activities	185,140	179,896

15 BORROWINGS

Unsecured non-current		
Bank loans	109,736	139,461

(a) Recognition and measurement

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, and intends to do so.

The Group monitors compliance with its financial covenants on a monthly basis and reports compliance on a semi-annual basis to the banks. The Group has complied with all such requirements during the current and previous year.

	Parent entity		Parent entity	
	2016 Shares	*2015 Shares*	*2016 $'000*	*2015 $'000*
16 CONTRIBUTED EQUITY				
(a) Share capital				
Ordinary shares - fully paid	98,947,309	98,989,901	49,264	56,521

Ordinary shares issued are classified as equity and are fully paid, have no par value and carry one vote per share and the right to dividends. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

If the entity reacquires its own equity instruments, for example, as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid, including any directly attributable incremental costs (net of income taxes), is recognised directly in equity.

(b) Movements in ordinary share capital

Date	*Details*	*Number of shares*	*$'000*
1 July 2014	Opening balance	98,947,309	58,383
	Issue of shares under the share option plans	333,956	3,125
	Share issue costs (net of tax)	–	(17)
	Share buy-back	(291,364)	(4,970)
30 June 2015	Closing balance	98,989,901	56,521
1 July 2015	Opening balance	98,989,901	56,521
	Issue of shares under the share option plans	671,849	5,955
	Share issue costs (net of tax)	–	(31)
	Share buy-back	(714,441)	(13,181)
30 June 2016	Closing balance	98,947,309	49,264

(c) Share options

In accordance with the provisions of the Company's share option plans, as at 30 June 2016, executives and non-executive management have options over 1,626,375 ordinary shares (which were all unvested), in aggregate, with various expiry dates.

As at 30 June 2015 executives and non-executive management had options over 2,403,618 ordinary shares (of which 2,270,674 were unvested), in aggregate, with various expiry dates.

Share options granted under the Company's share option plans carry no rights to dividends and no voting rights.

(d) Capital management

The Board reviews the capital structure on an ongoing basis. The Group's objective is to maintain an optimal capital structure which seeks to reduce the cost of capital and to ensure the Group has access to adequate capital to sustain the future development of the business.

In order to maintain or adjust the capital structure, the Group may adjust the level of dividends paid to shareholders, return capital to shareholders, buy back shares, issue new shares or sell assets to reduce debt.

As part of its capital management program, the Group monitors the return on invested capital and the gearing ratio. The Group defines return on invested capital as earnings before interest and tax (EBIT) divided by the sum of total equity plus net debt and gearing as term debt excluding capitalised borrowing costs, plus bank overdrafts and hire purchase liabilities, divided by earnings before interest, taxation, depreciation and amortisation (EBITDA).

The Board has adopted a policy of monitoring the dividend payout ratio and targeting a payout ratio of approximately 65% of net profit after tax as it seeks to strike a balance between shareholder returns and ensuring adequate capital is retained for the growth of the business so as to maximise long term shareholder returns.

There were no changes in the Group's approach to capital management during the year.

16 CONTRIBUTED EQUITY (continued)

(d) Capital management (continued)

The Group's return on invested capital and gearing ratios as at 30 June 2016 and 30 June 2015 were as follows:

	Consolidated	
	2016 $'000	*2015 $'000*
Return on invested capital		
Profit before tax	217,839	195,532
Net finance costs	3,336	5,375
EBIT	221,175	200,907
Borrowings	109,736	139,461
Cash and cash equivalents	(51,884)	(49,131)
Net debt	57,852	90,330
Total equity	404,702	343,479
Invested capital	462,554	433,809
Return on invested capital	47.8%	46.3%
Gearing		
Term debt	110,000	140,000
EBIT	221,175	200,907
Depreciation and amortisation	40,901	39,124
EBITDA	262,076	240,031
Gearing	0.42	0.58

17 RESERVES

Equity-settled benefits	27,348	21,829
Common control reserve	(6,054)	(6,054)
Hedging reserves	850	780
Foreign currency translation reserve	4,996	1,081
	27,140	17,636

(a) Nature and purpose of reserves

(i) Equity-settled benefits

The equity-settled benefits reserve arises on the grant of share options to executives and non-executive management under the Company's share option plans. Further information about share based payments is in note 25 to the financial statements.

(ii) Common control reserve

The common control reserve represents the excess of the purchase consideration over the balance of a non-controlling interest at the date a change in ownership of a subsidiary occurs.

(iii) Hedging reserves

Hedging reserves include gains and losses recognised on the effective portion of cash flow hedges with respect to the Group's interest rate swaps, as described in note 27(b), in addition to gains and losses recognised on the effective portion of foreign currency loans in previous periods designated as net investment hedges.

The cumulative deferred gain or loss on the interest rate swaps is recognised in the profit or loss when the hedged transaction impacts the profit or loss. The gains and losses deferred due to the net investment hedge are recognised in the profit or loss when the foreign operation is disposed.

(iv) Foreign currency translation

Exchange differences relating to the translation of the Group's foreign controlled entities from their functional currencies into Australian dollars are brought to account directly to the foreign currency translation reserve, as described in note 27(c).

18 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including market risk (foreign currency and interest rate risk), liquidity risk and credit risk.

The Group seeks to minimise the effects of these risks, by using various financial instruments, including derivative financial instruments. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Group's policies approved by the Board of directors, which provide written principles on the use of financial derivatives.

There have been no changes to the Group's exposure to financial risks or the manner in which it manages and measures these risks from the previous period.

The Group holds the following financial assets and liabilities at reporting date:

	Consolidated	
	2016 $'000	*2015 $'000*
Financial assets		
Cash and cash equivalents	51,884	49,131
Trade and other receivables	98,073	81,480
	149,957	130,611
Financial liabilities		
Trade and other payables	339,815	283,977
Bank loans	109,736	139,461
Interest rate swaps (net settled)	–	107
	449,551	423,545

(a) Market risk

(i) Foreign exchange risk management

The majority of the Group's operations are denominated in the functional currency of the country of operation therefore minimising the impact of most foreign currency risk. That is, transactions and balances related to the Australian operations are denominated in Australian dollars and transactions and balances related to the New Zealand operations are denominated in New Zealand dollars.

(ii) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk as it borrows funds at floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings through the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the forward interest rate curves at reporting date and the credit risk inherent in the contract.

18 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk (continued)

The following tables detail the notional principal amounts and interest rate swap contracts outstanding as at reporting date and weighted average interest rates based on the outstanding balances and applicable interest rates throughout the financial year:

Consolidated	30 June 2016 Weighted average interest rate %	30 June 2016 Balance $'000	30 June 2015 Weighted average interest rate %	30 June 2015 Balance $'000
Bank loans	2.97%	110,000	3.70%	140,000
Interest rate swaps (notional principal amount)	3.80%	–	4.11%	(30,000)
Net exposure to cash flow interest rate risk		110,000		110,000

The interest rate swaps settle on a monthly basis and the Group settles the difference on a net basis. The interest rate swap contracts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swap and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period that the floating interest payments impact profit or loss.

(iii) Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk.

The Group is using a sensitivity of 50 basis points as management considers this to be reasonable having regard to historic movements in interest rates.

A positive number represents an increase in profit or equity and a negative number a decrease in profit or equity.

		Interest rate risk			
		-50 bps		+50 bps	
Consolidated	Carrying amount $'000	Profit $'000	Other equity $'000	Profit $'000	Other equity $'000
At 30 June 2016					
Financial liabilities					
Borrowings	109,736	135	–	(135)	–
Total increase/(decrease)		135	–	(135)	–

		Interest rate risk			
		-50 bps		+50 bps	
Consolidated	Carrying amount $'000	Profit $'000	Other equity $'000	Profit $'000	Other equity $'000
At 30 June 2015					
Financial liabilities					
Interest rate swaps	107	(98)	(40)	98	40
Borrowings	139,461	182	–	(182)	–
Total increase/(decrease)		84	(40)	(84)	40

(b) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, who assess the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows.

18 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	Consolidated 2016 $'000	Consolidated 2015 $'000
Unsecured bank overdraft facility:		
amount used	–	–
amount unused	89,534	88,854
	89,534	88,854
Unsecured indemnity guarantees:		
amount used	1,309	522
amount unused	73	78
	1,382	600
Unsecured bank loan facilities (term debt):		
amount used(i)	110,000	140,000
amount unused	90,000	60,000
	200,000	200,000
Headroom in total borrowing facilities (excluding security indemnity guarantees)	179,534	148,854

(i) Face value of term debt (excluding capitalised borrowing costs).

Maturities of financial liabilities

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both principal and estimated interest cash flows.

Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at the reporting date.

2016	Less than 6 months $'000	6 - 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total $'000	Weighted average effective interest rate %
Financial liabilities							
Trade and other payables	339,815	–	–	–	–	339,815	–
Bank loans	1,636	1,636	113,273	–	–	116,545	2.97%
	341,451	1,636	113,273	–	–	456,360	

2015	Less than 6 months $'000	6 - 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total $'000	Weighted average effective interest rate %
Financial liabilities							
Trade and other payables	283,977	–	–	–	–	283,977	–
Bank loans	2,588	2,588	5,175	145,175	–	155,526	3.70%
Interest rate swaps (net settled)	107	–	–	–	–	107	–
	286,672	2,588	5,175	145,175	–	439,610	

18 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has endeavoured to minimise its credit risk by dealing with creditworthy counterparties. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for impairment, represents the Group's maximum exposure to credit risk.

(d) Fair value of financial instruments

At 30 June 2016, there were no financial assets or financial liabilities carried at fair value, however at 30 June 2015, the only financial assets or financial liabilities carried at fair value were interest rate swaps. The interest rate swaps were considered to be Level 2 financial instruments because, unlike Level 1 financial instruments, it's measurement is derived from inputs other than quoted prices that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices). There have been no transfers between levels 1, 2 and 3 for recurring fair value measurements during the financial year. The interest rate swap's fair value at 30 June 2015 was obtained from a third party valuation derived from discounted cash flow forecasts of forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates.

The carrying amount of other financial assets and financial liabilities recorded in the financial statements approximate their fair values.

19 COMMITMENTS

(a) Non-cancellable operating leases

The Group has entered into operating lease agreements in relation to its stores. These agreements have terms of between five to fifteen years, with, in some cases, an option to extend. Operating lease contracts generally contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

	Consolidated	
	2016 $'000	*2015 $'000*
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	83,042	76,979
Later than one year but not later than five years	239,904	214,263
Later than five years	95,152	72,237
	418,098	363,479

GROUP STRUCTURE

20 SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described below:

Name of entity	Country of incorporation	Class of shares	Equity holding 2016 %	Equity holding 2015 %
Parent entity				
JB Hi-Fi Limited(i)				
Subsidiaries				
JB Hi-Fi Group Pty Ltd(ii)	Australia	Ordinary	100	100
Clive Anthonys Pty Ltd(ii)	Australia	Ordinary	100	100
JB Hi-Fi (A) Pty Ltd(ii)	Australia	Ordinary	100	100
Rocket Replacements Pty Ltd(ii)	Australia	Ordinary	100	100
JB Hi-Fi Education Solutions Pty Ltd(ii)	Australia	Ordinary	100	100
JB Hi-Fi Group (NZ) Limited	New Zealand	Ordinary	100	100
JB Hi-Fi NZ Limited	New Zealand	Ordinary	100	100

(i) JB Hi-Fi Limited is the head entity within the tax consolidated group.

(ii) These wholly owned subsidiaries are members of the tax consolidated group.

In addition, JB Hi-Fi Limited has effective control over the JB Hi-Fi Limited Employee Share Trust, which administers shares issued through the Company's share option plans. This entity is also consolidated.

(a) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities which are controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated financial statements.

Investments in subsidiaries are accounted for at cost, less any impairment, in the separate financial statements of JB Hi-Fi Limited.

(ii) Employee Share Trust

The Company has a trust to administer the Company's share options plans. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Company.

(iii) Changes in ownership interests

The Company treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Company. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of JB Hi-Fi Limited (the common control reserve).

21 DEED OF CROSS GUARANTEE

JB Hi-Fi Limited, JB Hi-Fi Group Pty Ltd, JB Hi-Fi (A) Pty Ltd, Clive Anthonys Pty Ltd and JB Hi-Fi Education Solutions Pty Ltd (formerly Network Neighborhood Pty Ltd) are parties to a deed of cross guarantee under which each Company guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee. By entering into the deed, the subsidiaries who are party to the deed have been relieved from the requirement to prepare and lodge an audited financial report under Class Order 98/1418 (as amended).

The consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and balance sheet of the entities party to the deed of cross guarantee are provided as follows:

	2016 $'000	*2015 $'000*
(a) Consolidated statement of profit or loss, statement of profit or loss and other comprehensive income		
Statement of profit or loss		
Revenue	3,739,358	3,456,016
Cost of sales	(2,913,563)	(2,693,370)
Gross profit	825,795	762,646
Other income	427	486
Sales and marketing expenses	(382,161)	(353,667)
Occupancy expenses	(161,419)	(149,883)
Administration expenses	(25,476)	(26,183)
Finance costs	(3,803)	(5,921)
Other expenses	(36,494)	(33,530)
Profit before income tax	216,869	193,948
Income tax expense	(65,384)	(58,593)
Profit for the year	151,485	135,355
Statement of profit or loss and other comprehensive income		
Profit for the year	151,485	135,355
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges (net of tax)	70	1
Other comprehensive income for the year (net of tax)	70	1
Total comprehensive income for the year	151,555	135,356

21 DEED OF CROSS GUARANTEE (continued)

	2016 $'000	2015 $'000
(b) Balance sheet		
Current assets		
Cash and cash equivalents	50,867	45,083
Trade and other receivables	94,864	78,281
Inventories	506,881	443,179
Other	5,911	7,333
Total current assets	658,523	573,876
Non-current assets		
Other financial assets	51,644	51,644
Plant and equipment	168,860	163,892
Deferred tax assets	19,336	15,811
Intangible assets	70,873	70,873
Total non-current assets	310,713	302,220
Total assets	969,236	876,096
Current liabilities		
Trade and other payables	368,232	308,066
Current tax liabilities	11,005	9,516
Provisions	44,227	39,156
Other financial liabilities	–	107
Other	4,726	4,405
Total current liabilities	428,190	361,250
Non-current liabilities		
Borrowings	109,736	139,461
Provisions	6,381	6,073
Other	23,856	24,851
Total non-current liabilities	139,973	170,385
Total liabilities	568,163	531,635
Net assets	401,073	344,461
Equity		
Contributed equity	49,264	56,521
Reserves	22,145	16,556
Retained earnings	329,664	271,384
Total equity	401,073	344,461

	Parent Entity 2016 $'000	Parent Entity 2015 $'000
22 PARENT ENTITY		
Assets		
Current assets	1,535	344
Non-current assets	92,303	90,487
Total assets	93,838	90,831
Liabilities		
Current liabilities	14,320	10,496
Non-current liabilities	118	20
Total liabilities	14,438	10,516
Shareholders' equity		
Contributed equity	49,264	56,521
Reserves	27,348	21,829
Retained earnings	2,788	1,965
	79,400	80,315
Profit for the year	94,028	85,385
Total comprehensive income	94,028	85,385

23 RELATED PARTY TRANSACTIONS

(a) Parent entity and equity interests in related parties

The parent entity of the Group is JB Hi-Fi Limited, a listed public company, incorporated in Australia.

(b) Equity interests in related parties

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 20.

(c) Key management personnel

Disclosures relating to key management personnel are set out in the Directors' report.

(d) Terms and conditions of transactions with related parties other than key management personnel or entities related to them

Sales to, and purchases from, related parties for goods and services are made in arm's length transactions at normal prices and on normal commercial terms.

OTHER DISCLOSURES

	Consolidated 2016 $	Consolidated 2015 $
24 KEY MANAGEMENT PERSONNEL DISCLOSURES		
The aggregate compensation of the key management personnel of the Group is set out below:		
Short-term employee benefits	7,703,320	6,911,162
Post-employment benefits	284,502	265,636
Share-based payments expense	1,751,681	859,555
	9,739,503	8,036,353

Detailed remuneration disclosures are provided in the remuneration report on pages 28 to 50.

25 SHARE-BASED PAYMENTS

(a) Group share option plans

The Group has an ownership based remuneration scheme for executives (excluding non-executive directors) and non-executive management. In accordance with the provisions of the scheme, executives and non-executive managers within the Group are granted options to purchase parcels of ordinary shares at various issue prices including zero exercise prices. The options vest as follows, providing that performance and share price conditions, where they exist, are met:

- options issued to non-executive managers - a third each on the second, third and fourth anniversary of issue;
- options issued to executives prior to 1 July 2012 - a third each on the second, third and fourth anniversary of issue;
- options issued to executives from 1 July 2012 - a third each on the third, fourth and fifth anniversary of issue; and
- options issued to executives on 1 July 2014 - on the second anniversary of issue.

The options expire within five years of their issue, except for executive options issued from 1 July 2012 which expire within six years of their issue, or generally one month after the executive's or non-executive manager's resignation, whichever is earlier, however the Board may exercise its discretion to allow options to continue in certain circumstances.

All options issued to executives under the Group's long term incentive program until 30 June 2015 include performance hurdles requiring compound annual EPS growth of between 5% and 20% with the exception of the retention options issued in the 2015 financial year which had no performance hurdles. Options issued to executives during the year ended 30 June 2016 have an EPS growth performance hurdle of between 4% and 8%.

The following reconciles the outstanding share options granted under the Group's share option plans at the beginning and end of the financial year:

	Balance at start of the year Number	*Granted during the year Number*	*Exercised/ lapsed during the year Number*	*Balance at end of the year Number*	*Vested and exercisable at end of the year Number*
2016					
Outstanding Share Options with an exercise price	1,594,547	–	(861,658)	732,889	–
Outstanding Zero Exercise Price Options	809,071	359,358	(274,943)	893,486	–
	2,403,618	359,358	(1,136,601)	1,626,375	–
Weighted average exercise price of those with an exercise price	$15.05	–	$15.40	$14.65	–

25 SHARE-BASED PAYMENTS (continued)

(a) Group share option plans (continued)

	Balance at start of the year Number	*Granted during the year Number*	*Exercised/ lapsed during the year Number*	*Balance at end of the year Number*	*Vested and exercisable at end of the year Number*
2015					
Outstanding Share Options with an exercise price	2,099,952	280,467	(785,872)	1,594,547	132,944
Outstanding Zero Exercise Price Options	693,263	360,296	(244,488)	809,071	–
	2,793,215	640,763	(1,030,360)	2,403,618	132,944
Weighted average exercise price of those with an exercise price	$14.72	$17.48	$15.03	$15.05	$18.48

The weighted average remaining contractual life of share options outstanding at the end of the period was 1,074 days (2015: 954 days).

Fair value of options granted

Equity settled share based payments with employees are measured at the fair value of the equity instrument at grant date. The weighted average fair value of options granted during the year ended 30 June 2016 was $17.57 (2015: $10.09). The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the expected exercise date based on prior years' experience, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate.

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The expected price volatility for options granted during the year ended 30 June 2016 is based on the daily closing share price for the number of years preceding the issue of the series, that matches the years to vesting as all of these options are expected to be exercised as soon as they vest.

Detailed share option disclosures for all options series granted and exercised during the year are provided in the remuneration report on pages 28 to 50.

Share based payments expense

The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest, with a corresponding increase in equity.

At each reporting date the Group estimates the number of equity instruments expected to vest. The number of equity instruments that are expected to vest is based on management's assessment of the likelihood of the vesting conditions attached to the equity instruments being satisfied. The key vesting conditions that are assessed are earnings per share targets and required service periods. The impact of any revision in the number of equity instruments that are expected to vest is recognised as an adjustment to the share based payments expense with the corresponding adjustment to the equity-settled benefits reserve in the reporting period that the revision is made.

	Consolidated	
	2016 $	*2015 $*
26 REMUNERATION OF AUDITORS		
Audit and other services		
Audit and review of group financial statements	333,000	323,500
Audit and review of subsidiary financial statements	29,800	29,000
IT services[(i)]	58,216	511,507
Total remuneration for audit and other services	421,016	864,007

(i) During the years ended 30 June 2015 and 30 June 2016, Deloitte was engaged by the Group to assist with the implementation of a Customer Relationship Management tool for it's Commercial division.

The auditor of the Group is Deloitte Touche Tohmatsu.

27 SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES

The remaining principal accounting policies adopted in the preparation of these financial statements that have not already been disclosed are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods. Risks and rewards are considered passed to the buyer at the point of sale if the goods are taken by the customer at that time, or on delivery of the goods to the customer.

(ii) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(iii) Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

(b) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation (net investment hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 18. Movements in the hedging reserve in shareholder's equity are shown in the statement of changes in equity.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'.

27 SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Derivatives and hedging activities (continued)

(i) Cash flow hedge (continued)

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

(ii) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Gains and losses accumulated in equity are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Australian dollars, which is JB Hi-Fi Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges, or are attributable to part of the net investment in a foreign operation.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities presented are translated at the closing rate at the date of that balance sheet;
- income and expenses are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

27 SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goods and Services Tax (GST)

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

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

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

(e) New accounting standards and interpretations

In the current year, the Group has adopted the one amendment to accounting Standards issued by the Australian Accounting Standards Board (the AASB) that is relevant to its operations and effective for the current annual reporting period:

(i) AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*

The adoption of this amendment did not have any material financial impact on the amounts recognised and the disclosures presented in the financial statements of the Group.

At the date of authorisation of the financial report, the following relevant Standards and Interpretations were issued but not yet effective:

The effects of the following Standard are still being determined:

(i) AASB 16 *Leases* (effective 1 January 2019)

For lessees AASB 16 requires the majority of leases of an entity to be brought onto the balance sheet, with limited exceptions relating to short-term leases and low value assets which may remain off-balance sheet.

The calculation of the lease liability will take into account appropriate discount rates, assumptions about lease terms and increases in lease payments. A corresponding right of use asset will be recognised which will be amortised over the term of the lease.

For those leases that are brought onto the balance sheet, rent expense will no longer be shown. Instead, the profit and loss impact of these leases will be recorded as amortisation and interest charges.

The Group is yet to undertake a detailed assessment of the impact of AASB 16, however, based on the Group's preliminary assessment, the standard is expected to have a material impact on the financial statements when it is first adopted for the year ending 30 June 2020.

The effects of the followings Standards and Interpretations are not expected to be material:

(i) AASB 9 *Financial Instruments*, and the relevant amending standards (effective 1 January 2018)

(ii) AASB 15 *Revenue from Contracts with Customers*, AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*, AASB 2015-8 *Amendments to Australian Accounting Standards - Effective Date of AASB 15* (effective 1 January 2018)

(iii) AASB 2014-4 *Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation* (effective 1 January 2016)

(iv) AASB 2015-1 *Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle* (effective 1 January 2016)

(v) AASB 2015-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101* (effective 1 January 2016)

(vi) AASB 2016-1 *Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses* (effective 1 January 2017)

(vii) AASB 2016-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107* (effective 1 January 2017)

(viii) AASB 2016-3 *Amendments to Australian Accounting Standards - Clarifications to AASB 15* (effective 1 January 2018)

(ix) AASB 2016-5 *Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions* (effective 1 January 2018)

28 EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 15 August 2016, the Company announced that it would conduct an on-market buy-back in order to offset the dilutionary impact of: (i) shares likely to be issued pursuant to the exercise of employee share options between the date of release of the Company's FY2016 results and the end of the Company's post-AGM "trading window" in November 2016; and (ii) shares that will be issued in August 2016 in satisfaction of Executives' FY2016 deferred STI entitlements. The maximum number of shares that will be purchased is 429,371 and the buy-back is scheduled to commence in September 2016.

There have been no other matters or circumstances occurring subsequent to the end of the financial year end, that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in future financial years.

The shareholder information set out below was applicable as at 8 August 2016.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Ordinary shares		
Holding	*Total Holders*	*Units*	*% Issued Capital*
1 - 1,000	14,655	5,614,199	5.67
1,001 - 5,000	4,825	10,081,561	10.19
5,001 - 10,000	419	2,948,302	2.98
10,001 - 100,000	225	5,202,380	5.26
100,001 and over	32	75,100,867	75.90
	20,156	98,947,309	100.00

There were 220 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

	Ordinary shares	
Name	*Number held*	*% of issued shares*
1. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	19,091,242	19.29
2. J P MORGAN NOMINEES AUSTRALIA LIMITED	17,390,756	17.58
3. CITICORP NOMINEES PTY LIMITED	10,002,329	10.11
4. NATIONAL NOMINEES LIMITED	8,517,262	8.61
5. BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	6,136,497	6.20
6. BNP PARIBAS NOMS PTY LTD <DRP>	3,752,515	3.79
7. CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	2,270,646	2.29
8. RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	898,996	0.91
9. AMP LIFE LIMITED	775,746	0.78
10. UBS NOMINEES PTY LTD	742,527	0.75
11. BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING COLLATERAL>	594,000	0.60
12. RBC INVESTOR SERVICES AUSTRALIA PTY LIMITED <VFA A/C>	536,718	0.54
13. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	532,936	0.54
14. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	489,447	0.49
15. SHAWVILLE PTY LTD	450,000	0.45
16. BOND STREET CUSTODIANS LIMITED <COCKEJ - F01832 A/C>	311,190	0.31
17. NATIONAL NOMINEES LIMITED <N A/C>	303,586	0.31
18. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	252,210	0.25
19. NAVIGATOR AUSTRALIA LTD <SMA JB WERE INCOME A/C>	231,093	0.23
20. 3RD WAVE INVESTORS LTD	225,000	0.23
	73,504,696	74.26

C. Substantial holders

Substantial holders in the Company are set out below:

Ordinary shares	*Number held*	*Voting Power %*
Legg Mason Asset Management Australia Limited	6,021,424	6.09
Vinva Investment Management	5,043,447	5.10
UniSuper	4,997,774	5.05

	Number on issue	*Number of holders*
D. Unquoted equity securities		
Employee share options issued under the Company's share option plans	1,626,375	105

COMPANY SECRETARY

Doug Smith

SHARE REGISTRY

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street, Abbotsford, Victoria, 3067, Australia
Phone: 1300 302 417 (Australia)
Phone: +61 3 9415 4136

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

Level 4, Office Tower 2,
Chadstone Place, Chadstone Shopping Centre
1341 Dandenong Road, Chadstone VIC 3148
Phone: +61 3 8530 7333

STORE LOCATIONS(i)

Australia

VIC
Airport West
Altona
Ballarat
Barkly Square
Bendigo
Brighton
Broadmeadows
Camberwell
Chadstone
Chirnside
Craigieburn
Cranbourne
Cranbourne Park
Dandenong
Doncaster
Epping Plaza
Essendon
Forest Hill
Fountain Gate
Frankston
Frankston - Bayside
Geelong
Glen Waverley (The Glen)
Greensborough
Highpoint
Holmesglen
Hoppers Crossing
Knox
Maribyrnong
Melb City (Bourke St)
Melb City (Elizabeth St, Lonsdale St, Elizabeth St Cameras)
Melton
Mildura
Narre Warren
Nunawading
Pakenham
Plenty Valley
Prahran
Preston
Preston - Northland
Ringwood
Shepparton
South Wharf
Southland
Springvale
Sunshine
Thomastown
Traralgon
Watergardens
Waurn Ponds
Werribee

NSW
Albury
Artarmon
Bankstown
Belrose
Blacktown
Bondi
Broadway
Caringbah
Castle Hill
Castle Towers
Charlestown
Chatswood
Chatswood Chase
Coffs Harbour
Eastgardens
Erina
Glendale
Homebush
Hornsby
Hurstville
Jamisontown
Kotara
Leichhardt
Liverpool
Macarthur Square
Macquarie
Merrylands
Miranda
Moore Park
Mt Druitt
Newcastle
North Sydney
Parramatta
Parramatta Centre
Penrith
Port Macquarie
Roselands
Rouse Hill
Shellharbour
Sydney Airport
Sydney City (Galeries Victoria)
Sydney City (Pitt St Mall)
Sydney City (World Square)
Sydney City (Westfield)
Tamworth
Top Ryde
Tweed City
Tuggerah
Wagga Wagga
Warringah Mall
Warrawong
Wetherill Park
Wollongong

QLD
Brisbane City (Adelaide St)
Brisbane City (Albert St)
Brisbane City (Queen St)
Browns Plains
Bundaberg
Bundall - Gold Coast
Cairns
Cairns Stockland
Capalaba
Carindale
Carseldine
Chermside
Garden City (Westfield)
Harbour Town
Harvey Bay
Helensvale
Indooroopilly
Indooroopilly (Shopping Centre)
Ipswich
Kawana
Kedron
Loganholme
Mackay
Maroochydore
Morayfield
Mt Ommaney
Orion Springfield Central
Oxley
Pacific Fair
Robina - Gold Coast
Rockhampton
Strathpine
Toowoomba
Townsville
Townsville Willows

SA
Adelaide City
Colonnades
Elizabeth
Gepps Cross
Marion
Melrose Park
Modbury
Munno Parra
West Lakes

WA
Armadale
Belmont Forum
Booragoon
Bunbury
Cannington
Carousel
Claremont
Cockburn
Joondalup
Lakeside Joondalup
Malaga
Mandurah
Midland Central
Myaree
Ocean Keys
Osborne Park
Perth City (enex 100)
Perth City (Hay Street Mall)
Perth City (Piccadilly Arcade)
Rockingham
Whitford

TAS
Hobart
Launceston
Rosny Park

NT
Berrimah
Casuarina

ACT
Belconnen
Canberra City
Fyshwick
Tuggeranong
Woden

New Zealand
Albany
Auckland (Queens St)
Bayfair
Botany
Dunedin
Hamilton
Manukau
New Lynn
Palmerston North
Queensgate Lower Hutt
St Lukes
Sylvia Park
Wairau Park
Wellington
Westgate

(i) Current as at 30 June 2016

jbhifi.com.au