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JB
HI-FI

ANNUAL REPORT
2019

Financial Summary

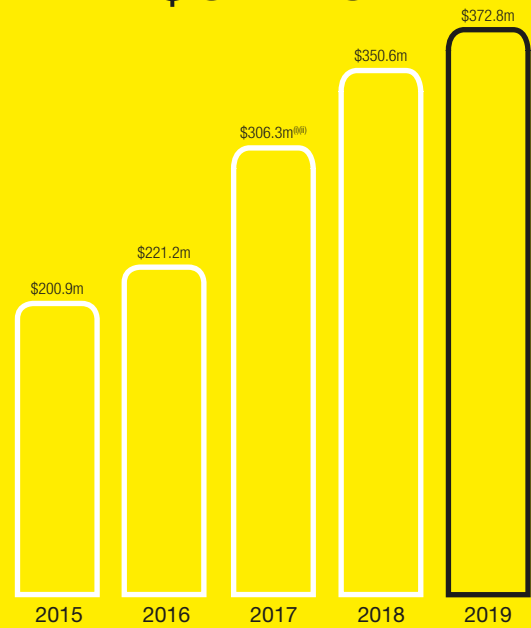
FINANCIAL PERFORMANCE

	2015 Statutory	2016 Statutory	2017 ⁽ⁱ⁾ Statutory	2017 ⁽ⁱ⁾ Underlying ⁽ⁱⁱ⁾	2018 Statutory	2019 Statutory	Growth Underlying
Sales	\$3.65b	\$3.95b	\$5.63b	\$5.63b	\$6.85b	\$7.10b	3.5%
EBIT	\$200.9m	\$221.2m	\$268.2m	\$306.3m	\$350.6m	\$372.8m	6.4%
NPAT	\$136.5m	\$152.2m	\$172.4m	\$207.7m	\$233.2m	\$249.8m	7.1%
Earnings per share	137.9cps	153.8cps	154.3cps	186.0cps	203.1cps	217.4cps	7.1%
Total dividend - fully franked	90.0cps	100.0cps	118cps	118cps	132cps	142cps	7.6%

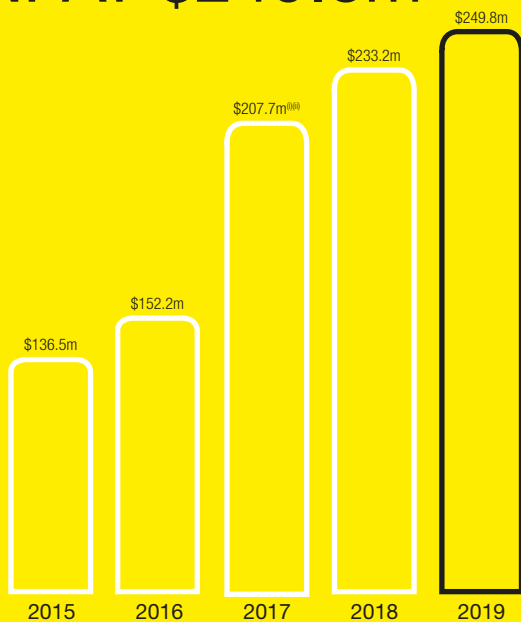
Sales \$7.10b



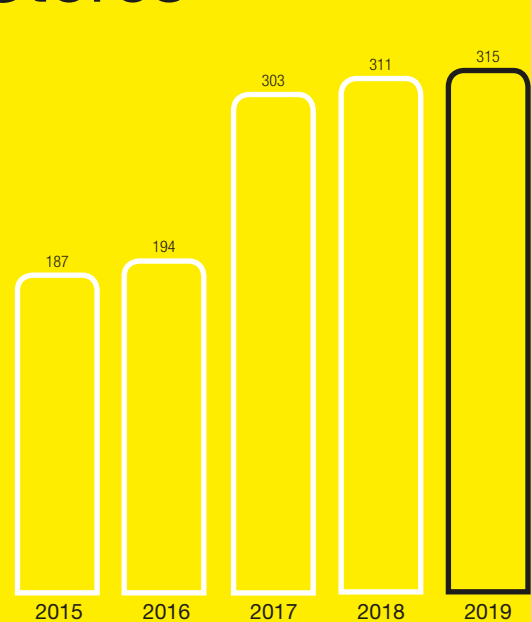
EBIT \$372.8m



NPAT \$249.8m



Stores



- (i) JB Hi-Fi acquired The Good Guys on 28 November 2016, all amounts disclosed for the 2017 financial year include The Good Guys for the period under JB Hi-Fi ownership.
- (ii) Underlying results exclude transaction fees and implementation costs totaling \$22.4m associated with the acquisition of The Good Guys in November 2016 and \$15.8m of fixed asset and goodwill impairments in New Zealand.

Chairman's and Group Chief Executive Officer's Report

Dear fellow shareholder,

FY19 has been a strong year for JB Hi-Fi Limited. It is very satisfying to report that the year ended 30 June 2019 was another record year with sales, profits and dividends all up on the prior year. The 2019 result was driven by a combination of sales growth and our low cost of doing business, underpinned by our ongoing emphasis on customer service.

Group Overview

JB Hi-Fi Limited and its subsidiaries (the "Group"), comprises two leading retail brands: JB Hi-Fi, with a focus on Technology and Consumer Electronics; and The Good Guys with a focus on Home Appliances and Consumer Electronics.

The value proposition for each brand centres around ranging the best brands at low prices supported by exceptional customer service across our 315 store network, online offering and through our commercial channels, JB Hi-Fi Solutions and The Good Guys Commercial.

The dual branded retail approach is underpinned by five key enablers that provide the Group with a unique competitive advantage, those being:

- scale;
- a low cost operating model evidenced by the Group's low CODB;
- quality store locations;
- strong supplier partnerships; and
- our multichannel capabilities.

The Group achieved sales of \$7.1 billion in FY19, up 3.5% on the prior year. EBIT was up 6.4% to \$372.8 million and NPAT was up 7.1% to \$249.8 million. Earnings per share was up 7.1% to 217.4 cents per share and the total dividend for FY19 was up 10 cents per share to 142 cents per share.

Brand Overview

JB Hi-Fi Australia

JB Hi-Fi Australia total sales grew 4.1% to \$4.73 billion, with comparable sales up 2.8%. Online sales grew 23.0% to \$258.0 million or 5.5% of total sales, as the Online offer continued to evolve. JB Hi-Fi Solutions recorded double digit sales growth and remains on track to deliver on its longer term aspirational sales target of approximately \$500 million per annum.

Gross profit increased by 3.9% to \$1.05 billion resulting in a gross margin of 22.1%. CODB was 14.9%, up 7 bps on the prior year. Total operating costs remained well controlled as the business managed costs in line with sales and continued to focus on customer service, invest in strategic initiatives and manage increased volumes through the store network. The business's low CODB remains a competitive advantage and is maintained through our continued focus on productivity and minimising unnecessary expenditure.

Sales growth, combined with cost control and lower depreciation as the business managed its investment in the store network, drove solid EBIT growth. EBIT was up 3.2% to \$301.7 million with EBIT margin down 6 bps at 6.4%.

JB Hi-Fi New Zealand

Total sales were up 2.0% to NZD236.2 million, with comparable sales up 8.2%. Online sales grew 38.3% to NZD13.3 million or 5.6% of total sales as the business benefited from the improved online platform. Gross margin was 17.3%, down 37 bps on the prior year and CODB was 16.7%, down 57 bps on the prior year. EBIT was (NZD1.9 million), up NZD1.0 million or 34.3%.

The Good Guys

Total sales grew 2.2% to \$2.15 billion, with comparable sales up 0.9%. Online sales grew 3.7% to \$130.9 million or 6.1% of total sales, with strong sales on The Good Guys website partially offset by a decline in third party marketplace sales.

Gross profit was \$442.7 million with gross margin up 33 bps to 20.6%. 2HY19 gross margin was up 88 bps as the business benefited from initiatives put in place over the last twelve months and cycled strong price competition in the prior year.

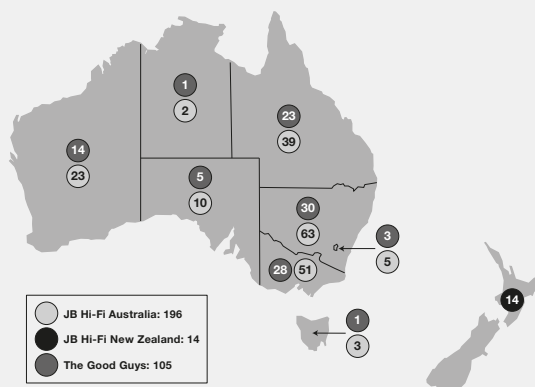
Sales growth, combined with gross margin expansion and lower depreciation as significant pre-acquisition IT investment is now fully amortised, drove strong EBIT growth. EBIT was up 19.8% to \$72.9 million with EBIT margin up 50 bps to 3.4%.

Stores

The Group had 315 stores in Australia and New Zealand at 30 June 2019, with 196 JB Hi-Fi Australia stores, 14 JB Hi-Fi New Zealand stores and 105 The Good Guys stores.

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 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.

Total Stores: 315*



* As at 30 June 2019

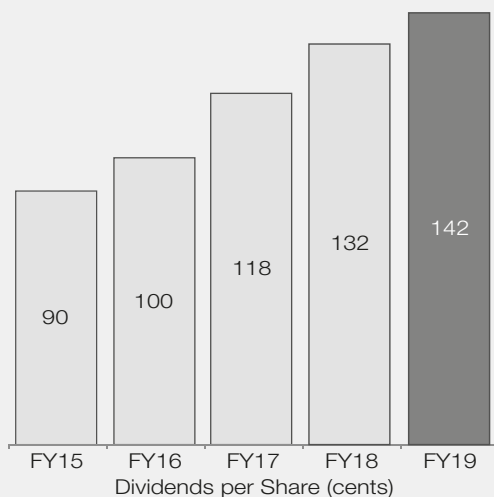
Group Balance Sheet, Capital Management and Dividends

The balance sheet continues to grow in strength with relatively low financial and operating leverage, evidenced by our solid fixed charges cover of 3.0 times, gearing of 1.0 and interest cover of 26.1 times.

JB Hi-Fi Limited 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, provides the ability to maintain and optimise our capital structure.

The Board has declared a final dividend of 51 cents per share fully franked, bringing the total dividend for FY19 to 142 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, the repayment of debt and the reinvestment of earnings for future growth.

Dividend up 7.6% to 142 cps



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 the Group. The Board is committed to ensuring that the Group's business is conducted ethically and in accordance with high standards of corporate governance. To this end, the Group has a Code of Conduct that provides guidance on what the Group deems to be acceptable behaviour.

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 for management through the Group's share ownership-based remuneration schemes create strong alignment with shareholders and are a critical tool in attracting new management, retaining existing management and rewarding performance. In FY19 the Board introduced a new variable reward plan for group executives and a minimum shareholding requirement for group executives and non-executive directors, further strengthening the alignment between the Board, management and shareholders.

The Group recognises the importance of diversity. The Board believes that the different perspectives arising from diversity encourage an innovative, responsive, productive and competitive business and creates value for our customers and shareholders. The Group has a Diversity Policy and the Board sets objectives in relation to gender diversity.

The Group has introduced a number of initiatives to encourage gender diversity and assist in achieving our diversity objectives, including the introduction of a paid maternity leave scheme, development of part time and flexible work practices and the introduction of a domestic violence policy and paid domestic violence leave program.

Workplace Giving Programs

The Group has workplace giving programs in place that enable directors, executives and employees to donate to registered charitable organisations through our payroll system. The Group matches dollar for dollar these regular employee contributions, 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. Through the combined giving of the Group and its employees, we believe we can make a real difference to the charities in the program.

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JB Hi-Fi Australia

In FY19, the JB Hi-Fi business celebrated its 10-year anniversary of the introduction of its workplace giving program, known as Helping Hands. The Helping Hands program was awarded Best Overall Program and Most Innovative Charity/Employer Partnership at the 2016 and 2017 Workplace Giving Awards and was awarded silver in 2018 Best Overall Program category.

Each week around 6,500 or 78% of the JB Hi-Fi Australia employees give to the program, which makes it one of the most successful workplace giving programs in Australia. This year almost \$2.6 million has been raised and, since its inception, the JB Hi-Fi business and its employees are proud to have raised more than \$16.3 million.

JB Hi-Fi New Zealand

The Helping Hands program was launched in New Zealand in May 2012 and involves over 280 employees (approximately 60% of JB Hi-Fi New Zealand employees) each making weekly contributions. This year, for the first time, over \$100,000 was raised and, since its inception, over \$500,000 has been raised.

The Good Guys

The Good Guys workplace giving program was launched in July 2017 and is known as The Good Guys Doing Good. This year the program has donated over \$376,000 to 14 national charity partners as a result of contributions from approximately 52% of The Good Guys employees.

Outlook

In FY20 the Group expects total group sales to be circa \$7.25 billion, comprising:

- JB Hi-Fi Australia \$4.84 billion;
- JB Hi-Fi New Zealand (NZD) \$0.24 billion; and
- The Good Guys \$2.18 billion.

Whilst we continue to see variability in the sales environment, we enter FY20 confident in our ability to execute and grow market share.

The key success drivers of the Group continue to be having the biggest range and the lowest prices, supported by a talented and enthusiastic team of over 12,500 team members across Australia and New Zealand. Our team members are our number one asset and our most important competitive advantage, their dedication and knowledge continues to delight our customers everyday.

We look forward to another successful year in FY20.



Greg Richards
Chairman

Melbourne,
27 August 2019



Richard Murray
Group Chief Executive Officer

Annual Report

for the financial year ended **30 June 2019**

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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 the Group are committed to ensuring that the Group’s business is conducted ethically and in accordance with high standards of corporate governance.

The Board believes that:

- the Group’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”); and
- during the 2019 financial year, it has been compliant with the spirit of the principles contained in the ASX Recommendations.

The Company is currently reviewing its policies and practices in view of the recent release of the 4th edition of the ASX Corporate Governance Council Principles and Recommendations, noting that compliance with the 4th edition is required by FY2021.

This Corporate Governance Statement has been approved by the Board and is effective as at 12 August 2019.

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 Group on behalf of shareholders.

The Board’s responsibilities include: overseeing the business and affairs of the Group; setting (in consultation with management) the strategic and financial objectives of the Group and overseeing management’s implementation of these objectives; monitoring the performance of management; approving the adoption of the Group’s major corporate governance policies; reviewing the Group’s policies on risk oversight and management; overseeing the reliability and integrity of the Group’s accounting, financial reporting and financial management and disclosure practices; overseeing the Group’s process for making disclosure to the market; and the establishment of a formal and transparent procedure for the selection, appointment and review of directors.

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

A copy of the Board Charter can be found on the Company’s investor website at <https://investors.jbhifi.com.au> via the “Investors” and “Corporate Governance” sections.

Composition of the Board / 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 the 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

The Company maintains a majority of non-executive directors on its Board. The Board currently comprises seven directors, being six non-executive directors, including the Chairman, and one executive director, being the Group Chief Executive Officer. The Company has written agreements with each director setting out the terms of their appointment. Apart from the Group 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 investor website at <https://investors.jbhifi.com.au> via the "Investors" and "Corporate 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

The Company considers that each of its directors (including the Chairman) is independent with the exception of Richard Murray, the Group 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.

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 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 chair of the audit, compliance & risk management committee of GPT Funds Management Limited ("GPTFM"), 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. Mark Powell is a non-executive director and member of the audit & risk management committee of Kiwi Property Group Limited. The Board notes that each of the GPT Wholesale Shopping Centre Fund, Vicinity Limited and Kiwi Property Group Limited have ownership interests in shopping centres in which the Company currently leases stores. The Board is of the opinion that Beth, Wai and Mark are independent directors on the basis that individual leasing arrangements at the Company, GPTFM, Vicinity Limited and Kiwi Property Group Limited are generally determined at a managerial level rather than Board level.

Wai Tang is a non-executive director of ASX listed Ovato Limited which provides catalogue printing services to the Group. The Board is of the opinion that Wai is an independent director on the basis that these arrangements are determined at a managerial level rather than Board level.

In addition, the Company's internal protocols provide that Beth, Wai and Mark 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 GPTFM/Vicinity Limited/Kiwi Property Group Limited/Ovato 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 Group'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, legal and remuneration advisors) and management (including the Group 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 Group'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 Group'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 Group'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 investor website at <https://investors.jbhifi.com.au> via the "Investors" and "Corporate Governance" sections.

During the 2019 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;
- Wai Tang: Ongoing member of Committee;
- Stephen Goddard: Ongoing member of Committee; and
- Mark Powell: Ongoing member of Committee.

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 2019 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 framework, structure and quantum of remuneration of executive officers and non-executive directors.

A copy of the Remuneration Committee Charter can be found on the Company's investor website at <https://investors.jbhifi.com.au> via the "Investors" and "Corporate Governance" sections.

During the 2019 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;
- Beth Laughton: Ongoing member of Committee; and
- Wai Tang: Ongoing member of Committee.

The Remuneration Committee meets as required. Details of the meetings held and members' attendance during the 2019 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:

- establishing formal and transparent procedures for the selection and appointment of new directors to the Board;
- appointment of directors to fill vacancies or as additional directors 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;
- selecting, appointing and regularly evaluating the performance of, and planning for the succession of, the Group Chief Executive Officer; and
- ensuring that internal procedures are in place 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 investor website at <https://investors.jbhifi.com.au> via the "Investors" and "Corporate 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

The Group acknowledges the need for directors, executives and employees to observe the highest ethical standards of corporate behaviour. The Group has adopted a Code of Conduct to provide directors, executives and employees with guidance on what the Group deems to be acceptable behaviour.

A copy of the Code of Conduct can be found on the Company's investor website at <https://investors.jbhifi.com.au> via the "Investors" and "Corporate Governance" sections.

WHISTLEBLOWER POLICY

The Group has recently adopted a Whistleblower Policy which will be launched in the businesses in August 2019. The Group will ensure that the Board and/or Audit and Risk Management Committee is informed of any material incidents reported under this Policy.

DIVERSITY

The Group 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 Group has a Diversity Policy which is available on the Company's investor website at <https://investors.jbhifi.com.au> via the "Investors" and "Corporate Governance" sections.

The Diversity Policy states that the Group appreciates that the different perspectives arising from diversity encourage an innovative, responsive, productive and competitive business and create value for our customers and shareholders. The Group'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. The Group believes that no barrier should exist that prevents this from occurring.

Gender diversity

As at 30 June 2019, the proportion of women engaged by the Group was as follows:

- Board: 29% being 2 of 7 directors (2018: 29%).
- Group Executive (the executives classified as key management personnel of the Company as listed on page 34 of this Report, excluding the executive director/Group CEO): 14% being 1 out of 7 (2018: 0%).
- Senior Management/Executive (excluding the executive director/Group CEO): 13% being 6 of 45 employees (2018: 17%).
For these purposes, Senior Management/Executive means:
 - the 7 executives referred to above; and
 - the 38 next most senior managers of the Group.
- Group: 40.5% being 5,094 of 12,564 employees (2018: 40.9%).

The Board has set measurable objectives in relation to gender diversity. These objectives, and the progress towards achieving them are set out in the table below:

Objective	June 2019	June 2018
To improve the percentage of female to male commissioned store sales staff	32%	29%
To improve the percentage of female to male store managers	16%	15%
To improve the percentage of female to male territory/area managers	18%	19%
To increase the percentage of female to male senior managers	13%	17%

The Group and the JB Hi-Fi and TGG businesses have implemented various initiatives to assist in achieving the Group's diversity objectives as set out below:

- reviewed the gender composition of the workforce across both businesses, in particular the representation of women in leadership roles;
- introduced a paid maternity leave scheme for all employees of the Group;
- developed systems to enable regular reporting and assessment of progress towards the adopted gender diversity objectives;
- 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 JB Hi-Fi stores, aimed at achieving greater female representation at management level over the medium term;
- encouraged female participation in leadership development programs;
- conducted a Group-wide employee survey in the JB Hi-Fi business with specific focus on equal opportunity and diversity;
- conducted focus groups to determine potential barriers to women's progression to leadership and/or return from parental leave;
- introduced a domestic violence policy and paid domestic violence leave program for both businesses;
- introduced diversity and unconscious bias training facilitated by an external expert diversity advisor, including compliance training setting out equal opportunity obligations and expectations of all employees and training to increase leaders' capability in managing parental leave and flexibility requests; and
- introduced a competency framework to support recruitment decisions based on relevant technical and behavioural competencies.

SAFETY

The Group is committed to providing a healthy and safe work environment for all its team members, contractors, customers and visitors.

In FY2019 the Lost Time Injury Frequency Rate (LTIFR) in JB Hi-Fi was 1.66 and in The Good Guys was 7.46, an improvement of 56% and 12% year on year respectively. There were no work-related fatalities recorded during the reporting period.

The decrease in LTIFR was supported by a Group wide focus on safety culture, investment in safety equipment and safe work practices, continued improvements in team member awareness and education.

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.

All non-executive directors and the 8 executives listed on page 34 are subject to the Company's Minimum Shareholding Policies which were introduced in FY2019 and require:

- Non-Executive Directors to hold the equivalent of 1.0 times base Board fees in shares;
- The Group CEO to hold the equivalent of 1.5 times fixed pay in shares; and
- Other Group executives to hold the equivalent of 1.0 times fixed pay in shares.

This level of shareholding is required to be built over 5 years from the introduction of the policy (or appointment, if later).

Subject to certain specific and limited exceptions, directors and key employees may only trade in the Company's shares, and any other securities of the Company, during designated Trading Windows. These four-week Trading Windows follow the release of the Company's Final Results (August/September), Interim Results (February/March) and the Annual General Meeting (October/November). Directors and Group 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 investor website at <https://investors.jbhifi.com.au> via the "Investors" and "Corporate 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 Group Chief Executive Officer and Group 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 2019) 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 2019, 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 investor website at <https://investors.jbhifi.com.au> via the "Investors" and "Corporate Governance" sections.

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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 Group 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 investor website at <https://investors.jbhifi.com.au> via the "Investors" and "Corporate Governance" sections.

SHAREHOLDER COMMUNICATIONS

The Company's investor website <https://investors.jbhifi.com.au> contains an overview of the Group's businesses and their history and 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 investor website at <https://investors.jbhifi.com.au> via the "Investors" and "Corporate 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

The Group'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 Group conducts its operations in a manner that adequately manages risk to protect its people, the environment and the Group's assets and reputation. The Group has an effective risk management framework in line with ISO31000 which enables management to identify and manage risk appropriately. The Committee regularly reviews and revises this framework and it is approved by the Board on an annual basis. The risk management framework was last approved by the Board in November 2018.

Risk identification and management is also a key focus of the executive and management teams.

The JB Hi-Fi business does not have an internal audit function. Instead, risk identification and management for the JB Hi-Fi business is managed on a day-to-day basis by a dedicated risk management team. Risk identification and management for The Good Guys business as well as internal audit is managed on a day-to-day basis by a dedicated business assurance team.

A copy of the Group's Risk Management Policy can be found on the Company's investor website at <https://investors.jbhifi.com.au> via the "Investors" and "Corporate 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 the Group's strategies for managing these risks) are discussed in the "Business Strategies and Prospects" section of the Operating and Financial Review commencing on page 28.

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 by the JB Hi-Fi business in the Carbon Disclosure Project and the Australian Packaging Covenant.

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 16, the most significant of which are the Group's workplace giving programs.

The Group is currently engaging with its suppliers in relation to ethical sourcing and "modern slavery" standards, and intends to publish a modern slavery statement by December 2020 as required by legislation.

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/July 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 Group 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 Group executives are evaluated by the Group CEO including: (i) assessment against both financial and non-financial performance measures; and (ii) a one-on-one meeting between the Group CEO and executive to discuss the executive's performance. The Group 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 Group executives has been conducted in respect of the 2019 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 Group during the financial year, and the principles behind the setting of such remuneration, are included in the Remuneration Report.

ENVIRONMENTAL STATEMENT

The Group is committed to understanding and attempting to mitigate any adverse environmental impacts its business has on the Australian and New Zealand environments, and has implemented several initiatives to help achieve this.

Carbon disclosure project

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

The Group's response to the CDP in 2018 was assessed as a D. The Group is currently developing a Sustainability Framework which will be released in FY2020 and is designed to ensure a strategic and structured approach to the management of sustainability and which is likely to improve the Group's CDP rating.

Promotion of energy efficient products

The Group supports the Smarter Choice program in conjunction with the Victorian and New South Wales State Governments. This program educates employees of the Group on how to best advise customers about the energy efficiency of products.

The Good Guys business also works with state-based organisations that provide home energy assistance. These include:

- Energex in Queensland (which promotes PeakSmart air-conditioners, which help reduce peak electricity demand);
- New South Wales Office of Environment & Heritage (which assists eligible residents through the Appliance Replacement Offer to reduce energy bills by subsidising the purchase of energy efficient product upgrades); and
- Brotherhood of St Laurence in Victoria (which assists low income and vulnerable households in replacing appliances with more energy efficient ones).

Australian packaging covenant

The Group is a signatory to the Australian Packaging Covenant. This is a voluntary program involving both Government and industry with the intention of ensuring that 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.

During FY2019, JB Hi-Fi was assessed at a Performance Level 2 (Good Progress) which was the same as FY2018. The Good Guys were assessed at Performance Level 1 (Getting Started). Additional initiatives that will be implemented by the Group will be addressed in conjunction with the new Group Sustainability Framework and these are likely to lead to an improvement in the ratings.

Cartridges 4 Planet Ark

The Group is a Cartridges 4 Planet Ark collection partner. This program enables consumers to drop used printer cartridges in stores, where they are collected and returned for recycling and remanufacturing, ensuring landfill is avoided. In FY2019, almost 41,000 cartridges were recycled through the Group's participation in this program. Since the commencement of the Group's participation in this program approximately 264,000 cartridges have been recycled (in addition to cartridges recycled by The Good Guys prior to its acquisition by the Group).

TAKE2

The Group has committed to participate in Sustainability Victoria's TAKE2 program, which is a collective climate change program supporting individuals, government, businesses and other organisations to help Victoria achieve net zero emissions by 2050.

REDCycle

The Group has committed to support the REDCycle Program, which enables soft plastics such as plastic bags to be returned to over 1800 sites around Australia and New Zealand and converted into furniture for schools and communities.

E-Waste

All e-waste from Store and Support operations is recycled.

Store initiatives

The Group continues to review its store operations and has introduced various initiatives with the aim of ensuring its impact on the environment is reduced.

In order to reduce energy consumption stores have been fitted with LED lighting and a trial is underway to control, monitor, measure and optimise energy consumption in stores.

Waste from operations is recycled where possible with stores having paper and cardboard recycling bins. A trial is underway to identify opportunities to reduce plastic waste going to landfill.

JB Hi-Fi New Zealand stores no longer provide customers with plastic bags; customers now have the option of a paper bag or are able to purchase reusable bags.

SOCIAL STATEMENT

As one of Australia's and New Zealand's leading retailers, the Group understands the impact it can have on people and the community. The Group is committed to working with its employees, customers and suppliers to ensure a strong and sustainable future for our people and the community in which we live and operate.

Modern slavery reporting and group ethical sourcing policy

The Group is in the process of developing and implementing a Group Ethical Sourcing Policy, which outlines the Group's minimum standards for labour, environmental management, ethics and health and safety in relation to the sourcing of products by the Group. In conjunction with this, in FY2019 the Group became a member of the Responsible Business Alliance, which is the world's largest industry coalition dedicated to corporate social responsibility in global supply chains. The Group will submit an Annual Slavery Statement to the Department of Home Affairs by Dec 2020.

JB Hi-Fi's workplace giving program – "Helping Hands"

During FY2019, JB Hi-Fi celebrated the 10-year anniversary of the introduction of Helping Hands, which is the business' workplace giving program. Through this program, JB Hi-Fi directors, executives and employees are able to donate to registered charitable organisations. The JB Hi-Fi business matches dollar for dollar employee contributions through its payroll system, effectively doubling the financial benefit to its charity partners.

Our Helping Hands program was awarded Best Overall Program and Most Innovative Charity/Employer Partnership at the 2016 and 2017 Workplace Giving Awards and was awarded silver in 2018 Best Overall Program category.

The JB Hi-Fi business works with Workplace Giving Australia to develop and maintain the program and, in doing so, contributes to the Group's vision of delivering significant social impact through employers and community organisations working together. Through the combined giving of the JB Hi-Fi business and its employees, the Group believes it makes a real difference to the charities in the program.

Helping Hands – Australia

The Helping Hands program in Australia involves around 6,500 JB Hi-Fi Australia employees (approximately 78% of total JB Hi-Fi Australia employees) each making weekly contributions to registered charitable organisations. In FY2019 almost \$2.6 million has been raised and, since its inception, the JB Hi-Fi business and its employees are proud to have raised more than \$16.3 million.

During 2018 The Group proactively sought feedback from its employees as to the cause areas they wanted to support. Based on that feedback a charity rotation plan has been introduced, which has resulted in two new charity partners, Kids Under Cover and JB Hi-Fi Helping Out, being introduced. JB Hi-Fi Helping Out has been set up to enable employees to donate, for a limited time, to a charity that is delivering an innovative initiative within a cause area the employees are passionate about. The first charity to be supported through JB Hi-Fi Helping Out is McAuley Community Service for Women which provides services for women and their children who are escaping family violence, and for women who are homeless.

The current charity partners who receive contributions are Bush Heritage Australia, ReachOut.com, Medicins Sans Frontieres (Doctors Without Borders), The Song Room, RedKite, Fred Hollows Foundation, Oxfam, Animal Welfare League Australia ("AWLA"), Kids Under Cover and JB Hi-Fi Helping Out.

Helping Hands – New Zealand

The Helping Hands program was launched in New Zealand in 2012 and involves over 280 employees (approximately 60% of JB Hi-Fi New Zealand employees) each making weekly contributions. This year, for the first time, over \$100 thousand was raised and since its inception over \$503 thousand has been raised. The current charity partners in New Zealand are ShelterBox, Kenzies Gift, Forest and Bird, Youthline and Plunket.

The Good Guys' "Doing Good" workplace giving program

The Good Guys business launched its workplace giving program, Doing Good, in July 2017. Under this program The Good Guys matches dollar for dollar contributions made by employees, effectively doubling the benefit to its national charity partners. This year the program has donated over \$376 thousand to 14 national charity partners as a result of contributions from approximately 52% of The Good Guys employees.

Donations were made to the following charities: Berry Street, Circus Oz, Orange Sky Laundry, The Good Foundation, Whitelion, KickStart for Kids, McGrath Foundation, Soldier On, Prostate Cancer Foundation of Australia, EdConnect, Perth Children's Hospital Foundation, Daniel Morcombe Foundation, HeartKids and RSPCA.

"Change for Change" – donation boxes in JB Hi-Fi stores

The Helping Hands program has driven the placement of "Change for Change" boxes in all JB Hi-Fi stores across Australia and New Zealand. These boxes have been placed at point of sale locations to encourage donations from customers. All donations collected are shared evenly amongst the Helping Hands program's charity partners. This year almost \$48 thousand has been collected in Australia and, since inception, the program has raised over \$642 thousand. In New Zealand approximately \$31 thousand has been collected since boxes were first introduced into stores.

One-off fundraising campaigns

During the year the Group partnered with both current Helping Hands charity partners and other charities to deliver one-off fundraising campaigns. Current partners Songroom and ReachOut received over \$200 thousand each as a result of instore campaigns. Drought Angels and The Christchurch Foundation received contributions from employees, which were matched dollar for dollar by the Group, to assist with events during the year.

"Employer Leadership Group" – founding partner

The JB Hi-Fi business is a founding partner of Workplace Giving Australia's "Employer Leadership Group" ("ELG") that was formed in 2010 to generate awareness of the benefits of workplace giving programs across the leadership of Australian businesses. The Group's CEO, Richard Murray, is Chairperson of the ELG. 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 Workplace Giving Australia. As a founding partner, the JB Hi-Fi business seeks to play its part in encouraging workplace giving as a low cost and highly efficient way of generating funds for the charitable sector. In addition to the Group's workplace giving programs and Change for Change contributions detailed above, from 2012 to 2019 the Group has made contributions to Workplace Giving Australia totalling \$300 thousand in order to support its initiatives.

The recent addition of the Business Council of Australia as a member of Workplace Giving Australia is an exciting step forward in the continued growth of workplace giving in Australia and towards the realisation of Workplace Giving Australia's vision of one million Australians giving to charity through their place of work by 2020.

DIRECTORS' REPORT

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 2019. 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:

<i>Name</i>	<i>Particulars</i>
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 was previously the non-executive chairman of Vitaco Holdings Limited.
Mr Stephen Goddard Non-Executive Director MSc. BSc (Hons)	Stephen was appointed to the Board in August 2016 and is a member of the Audit and Risk Management Committee. 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 Chair of the Audit and Risk Management Committees of both GWA Group Limited and Accent Group Limited and a non-executive director of Nick Scali Limited. He was previously a non-executive director and Chair of the Audit and Risk Management Committees of Pacific Brands and Surfstitch Group Ltd.
Ms Beth Laughton Non-Executive Director B.Ec, FAICD, FCA	Beth was appointed to the JB Hi-Fi Board in May 2011, became Chair of the Audit & Risk Management Committee in June 2012 and is also a member of the Company's Remuneration Committee. 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 non-executive director of Shopping Centres Australasia Property Group RE Limited and Shopping Centres Australasia Property Holding Pty Ltd. Beth was previously a member of the Defence SA Advisory Board and its Audit & Risk Management Committee, a non-executive director of Port Adelaide Maritime Corporation, a non-executive director and Chair of the Audit Committee of both Sydney Ferries and CRC Care Pty Ltd, and a non-executive director and member of the Audit Committee of the ASX listed Australand Property Group companies.
Mr Mark Powell Non-Executive Director BSc (Hons), MSc, MBA (Distinction), BApp. Theol, MA (Hons)	Mark was appointed to the Board in March 2017 and is a member of the Audit & Risk Management Committee. Mark has over 25 years' executive experience in retail, logistics and wholesale distribution in the UK, Spain, North America, Australia and New Zealand. This includes being UK Logistics Operations Director for Tesco Plc, running Wal-Mart Canada's logistics operations and CEO of Warehouse Stationery in NZ. Mark also spent five years as Group CEO for The Warehouse Group, an NSX listed retail group which includes Noel Leeming, NZ's largest technology and appliances retailer. He was an advisor to the board of The Good Guys for 18 months prior to its acquisition by JB Hi-Fi. Mark is currently a non-executive director and member of the Audit and Risk Committee of NZX listed Kiwi Property Group Limited. He is also involved on a voluntary basis on the boards of several not-for-profit organisations.
Ms Wai Tang Non-Executive Director BAppSC, MBA, GAICD	Wai was appointed to the Board in September 2015 and is a member of the Company's Audit & Risk Management Committee and Remuneration 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 Ovato Limited, Metcash Limited, 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
Group Chief Executive Officer and Executive Director
B.Comm, Grad.Dip.
Applied Finance & Investment,
FCA

Richard became Chief Executive Officer on 1 July 2014 having been appointed to the Board in June 2012. Richard has 25 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 Workplace Giving Australia's Leadership Group, which aims to encourage Australian businesses to set up workplace giving programs.

Each of the aforementioned directors held office for the whole financial year and since the end of the financial year.

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 25 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 and since the end of the financial year are as follows:

<i>Name</i>	<i>Company</i>	<i>Period of Directorship</i>
Greg Richards	Vitaco Holdings Limited	August 2015 (listed September 2015) – December 2016
Stephen Goddard	GWA Group Limited	Since October 2016
	Accent Group Limited	Since November 2017
	Nick Scali Limited	Since March 2018
	Pacific Brands Limited	May 2013 – July 2016
Beth Laughton	Surfstitch Group Limited	November 2014 (listed December 2014) – December 2016
	Shopping Centres Australasia Property Group	Since 13 December 2018
	Mark Powell	Kiwi Property Group Limited (NZX)
Wai Tang	Vicinity Limited	Since May 2014
	Ovato Limited	Since October 2017
	Metcash Limited	Since 1 August 2019
Richard Uechtritz	Seven Group Holdings Limited	Since June 2010

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 nature of the principal activity of the Group during the financial year other than as detailed herein.

Operating and Financial Review

The Operating and Financial Review, which forms part of this Directors' Report, is presented separately on pages 23 to 31.

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the Group.

Subsequent events

There have been no 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 2018, as detailed in the Directors' Report for that financial year, an interim dividend of 86.0 cents per share and a final dividend of 46.0 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 9 March 2018 and 7 September 2018 respectively.

In respect of the financial year ended 30 June 2019, an interim dividend of 91.0 cents per share was paid to the holders of fully paid ordinary shares on 8 March 2019 and the directors have declared the payment of a final dividend of 51 cents per share, to be paid to the holders of fully paid ordinary shares on 6 September 2019. Both dividends are franked to 100% at the 30% corporate income tax rate. The total dividend for the financial year of 142 cents per share represents a payout ratio of approximately 65% of net profit after tax.

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 2019 financial year and the number of meetings attended by the members of the Board or the relevant Committee. During the financial year, 14 Board meetings, 6 Remuneration Committee meetings and 6 Audit and Risk Management Committee meetings were held.

Directors	Board of Directors		Remuneration Committee		Audit and Risk Management Committee	
	Held	Attended	Held	Attended	Held	Attended
G. Richards	14	14	6	6	–	–
S. Goddard	14	14	–	–	6	6
B. Laughton	14	14	6	6	6	6
M. Powell	14	14	–	–	6	6
W. Tang	14	13	6	5	6	6
R. Uechtritz	14	14	–	–	–	–
R. Murray	14	14	–	–	–	–

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.

Directors	Fully paid ordinary shares			Executive share options		
	Direct number	Indirect number	Total	Direct number	Indirect number	Total
G. Richards	3,455	23,031	26,486	–	–	–
S. Goddard	4,500	–	4,500	–	–	–
B. Laughton	5,804	–	5,804	–	–	–
M. Powell	2,000	–	2,000	–	–	–
W. Tang	–	5,000	5,000	–	–	–
R. Uechtritz	11,516	–	11,516	–	–	–
R. Murray ⁽ⁱ⁾	107,818	2,304	110,257	270,823	–	270,823

(i) Excludes any restricted shares that may be granted by the Board in August 2019 pursuant to achievement of incentives under the Company's Variable Reward Plan.

Remuneration Report

The Remuneration Report, which forms part of this Directors' Report, is presented separately on pages 32 to 56.

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

Given the size and complexity of the Group, 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.

The directors have not engaged the auditor to provide any non-audit services in the 2019 financial year.

Auditor's independence declaration

The auditor's independence declaration is included on page 57 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 hundred 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

Melbourne

12 August 2019



Richard Murray

Group Chief Executive Officer

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OVERVIEW OF OPERATIONS

The Group, which includes both the JB Hi-Fi and The Good Guys businesses, sells the following products:

- consumer electronics including televisions, audio equipment, computers and cameras;
- telecommunications products and services;
- whitegoods, cooking products, heating & cooling products, small appliances and kitchen accessories; and
- software (CDs, DVDs, Blu-ray discs and games) and musical instruments.

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 networks (196 JB Hi-Fi/JB Hi-Fi Home stores in Australia, 14 JB Hi-Fi stores in New Zealand and 105 The Good Guys stores in Australia as at 30 June 2019) and online operations (JB Hi-Fi and The Good Guys websites). Sales are also generated from the Group's commercial and education businesses, JB Hi-Fi Solutions and The Good Guys Commercial.

GROUP FINANCIAL PERFORMANCE – HIGHLIGHTS

	<i>FY2019</i>	<i>FY2018</i>	<i>Mt</i>
Total Sales (\$m)	7,095.3	6,854.3	+3.5%
Earnings before interest and tax (\$m)	372.8	350.6	+6.4%
Net profit after tax (\$m)	249.8	233.2	+7.1%
Earnings per share (basic ¢)	217.4	203.1	+7.1%
Dividend per share (¢)	142.0	132.0	+7.6%

Total sales grew by 3.5% to \$7,095.3 million, earnings before interest and tax grew by 6.4% to \$372.8 million and net profit after tax grew by 7.1% to \$249.8 million. Earnings per share were up 7.1% to 217.4 cps.

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DIVISIONAL PERFORMANCE**JB Hi-Fi Australia**

	<i>FY2019</i>	<i>FY2018</i>	<i>Mvt</i>
Total Sales (\$m)	4,726.0	4,539.7	+4.1%
Gross Profit (\$m)	1,046.2	1,006.5	+3.9%
Gross Margin (%)	22.14%	22.17%	(4 bps)
Cost of Doing Business (%)	14.89%	14.82%	+7 bps
EBITDA (\$m)	342.3	333.6	+2.6%
EBITDA Margin (%)	7.24%	7.35%	(11 bps)
EBIT (\$m)	301.7	292.3	+3.2%
EBIT Margin (%)	6.38%	6.44%	(6 bps)
Stores (#)	196	193	+3 stores

Total sales were up 4.1% to \$4,726.0 million (FY2018: \$4,539.7 million) and comparable sales growth was 2.8%. It was a pleasing finish to FY2019 with strong sales in the key tax time promotional period driving quarter four comparable sales growth of 3.3%.

Hardware and services sales (all sales excluding Music, Movies and Games Software categories) were up 5.4% for the financial year, with comparable sales up 4.1%, driven by the Communications, Audio, Fitness, Games Hardware and Connected Technology categories. Software sales were down 7.3% and on a comparable basis were down 8.3% as a result of double digit declines in the Movies and Music categories which was partially offset by strong growth in the Games Software category. By value, software sales represent 9.3% of total sales (FY2018: 10.0%).

Online sales in Australia grew 23.0% (FY2018: 32.1%) to \$258.0 million or 5.5% of total sales (FY2018: 4.6%), as the JB Hi-Fi Australia business continues to invest in and evolve its online offer.

A continued focus on growing sales and gross profit dollars saw gross profit increase by 3.9% to \$1,046.2 million. Gross margin decreased by 4 bps to 22.14%, driven primarily by sales mix as the business manages the decline in higher margin software categories and the growth of low margin brands and categories, and price investment to reinforce the business' market leadership.

The JB Hi-Fi Australia business' low Cost of Doing Business ("CODB") remains a competitive advantage and is maintained through continued focus on productivity, minimising unnecessary expenditure and leveraging scale. CODB increased by 7 bps to 14.89% and in absolute terms grew 4.6%. Total operating costs remained well controlled as the JB Hi-Fi Australia business managed costs in line with sales and continued to focus on customer service, investing in strategic initiatives and managing increased volumes through the store network.

Sales growth, combined with cost control drove EBITDA growth of 2.6%. Depreciation declined by 1.4% as the business managed its investment in the store network. EBIT was up 3.2% to \$301.7 million, while EBIT Margin was down 6 bps to 6.38%.

JB Hi-Fi New Zealand⁽ⁱ⁾

	<i>FY2019</i>	<i>FY2018</i>	<i>Mvt</i>
Total Sales (NZ\$m)	236.2	231.5	+2.0%
Gross Profit (NZ\$m)	40.8	40.9	(0.1%)
Gross Margin (%)	17.29%	17.66%	(37 bps)
Cost of Doing Business (%)	16.71%	17.28%	(57 bps)
EBITDA (NZ\$m)	1.4	0.9	+56.1%
EBITDA Margin (%)	0.58%	0.38%	+20 bps
EBIT (NZ\$m)	(1.9)	(2.9)	+34.3%
EBIT Margin (%)	(0.80%)	(1.24%)	+44 bps
Stores (#)	14	15	(1 store)

(i) Amounts disclosed for JB Hi-Fi New Zealand are in local currency to remove the impacts of foreign currency translation on trading performance, the Australian dollar performance is presented in Note 2 of the financial statements.

Total sales in FY2019 were up 2.0% to NZ\$236.2 million, with comparable sales up 8.2%.

The key growth categories were Communications, Fitness, Audio and Small Appliances. Online sales in New Zealand for FY2019 grew 38.3% to NZ\$13.3 million or 5.6% of total sales (FY2018: 4.1%) as the business benefited from the improved online platform.

Gross margin was down 37 bps on FY2018 to 17.29% due to sales mix. CODB was down 57 bps on FY2018 to 16.71%, driven by cost control and strong comparable sales growth. In absolute terms CODB declined 1.3% on FY2018.

Sales growth, combined with cost control, drove EBITDA growth of 56.1%. Depreciation declined by 13.2%, as we managed our investment in the store network. EBIT was -NZ\$1.9 million up NZ\$1.0 million from FY2018.

The Good Guys

	<i>FY2019</i>	<i>FY2018</i>	<i>Mvt</i>
Total Sales (\$m)	2,147.9	2,101.3	+2.2%
Gross Profit (\$m)	442.7	426.1	+3.9%
Gross Margin (%)	20.61%	20.28%	+33 bps
Cost of Doing Business (%)	16.63%	16.60%	+3 bps
EBITDA (\$m)	85.5	77.3	+10.6%
EBITDA Margin (%)	3.98%	3.68%	+30 bps
EBIT (\$m)	72.9	60.9	+19.8%
EBIT Margin (%)	3.40%	2.90%	+50 bps
Stores (#)	105	103	+2 stores

Total sales were up 2.2% to \$2,147.9 million (FY2018: \$2,101.3 million) and comparable sales growth was 0.9%.

The key growth categories for FY2019 were Refrigeration, Laundry, Dishwashers, Televisions, Communications and Computers.

Online sales for FY2019 were up 3.7% to \$130.9 million or 6.1% of total sales (FY2018: 6.0%) with strong sales on The Good Guys website partially offset by a decline in third party marketplace sales.

Gross profit for FY2019 was up 3.9% to \$442.7 million from \$426.1 million in FY2018, with gross margin up 33 bps to 20.61% (FY2018: 20.28%). Gross margin in the second half was up 88 bps as the business benefited from the initiatives put in place over the last twelve months and the cycling of strong price competition in the second half of FY2018.

CODB for FY2019 was up 3 bps to 16.63% and in absolute terms grew 2.4% on FY2018 with total operating costs in line with expectations and store wages remained well controlled.

Sales growth, combined with gross margin expansion drove strong EBITDA growth of 10.6%. Depreciation declined by 23.5% as significant pre-acquisition IT investment is now fully amortised. EBIT was up 19.8% to \$72.9 million from \$60.9 million in the previous financial year, while EBIT Margin was up 50 bps to 3.40%.

GROUP BALANCE SHEET, CAPITAL MANAGEMENT AND DIVIDENDS

The Group's total net assets at the end of the financial year were \$1,044.1 million, which was \$96.5 million higher than at the end of FY2018.

In June 2019, the Group restructured its multi-tranche term debt facilities, resulting in a reduction in these facilities by \$110.0 million to \$440.0 million. In conjunction with this restructure, the Group also increased its trade finance facility by \$110 million to \$140.0 million, which is renewable annually, and reduced its overdraft facilities by \$30 million, resulting in overdraft facilities of \$50.0 million and NZ\$10.0 million which are renewable annually.

The Group now has term debt facilities as follows:

- \$60.0 million with an expiry date of September 2020;
- \$242.0 million with an expiry date of July 2021; and
- \$138.0 million with an expiry date of July 2022.

The financial covenants included in the Group's financing facilities are leverage and fixed charges cover ratios. The Group has complied with each of its financial covenants throughout the period.

At the end of the financial year the Group had total interest bearing liabilities of \$439.1 million and cash on hand of \$119.2 million resulting in net debt of \$319.9 million, a reduction of \$77.5 million from the prior year.

The total dividend for the 2019 financial year of 142.0 cents per share represents a payout ratio of approximately 65% of the full year earnings. The Board currently believes a 65% dividend payout ratio appropriately balances the distribution of profit to shareholders, the repayment of debt and reinvestment of earnings for future growth. The final dividend for the 2019 financial year of 51.0 cents per share fully franked will be paid on 6 September 2019 with a record date of 23 August 2019.

INVESTMENTS FOR FUTURE PERFORMANCE

Investments of \$59.3 million were made during the financial year in capital expenditure projects, an increase of \$4.9 million from \$54.4 million during the previous financial year. Capital expenditure remains well controlled as the Group continues to invest in the store portfolio, our digital propositions and strategic initiatives.

These investing activities are anticipated to contribute towards earnings growth in FY2020 and beyond.

WORKING CAPITAL

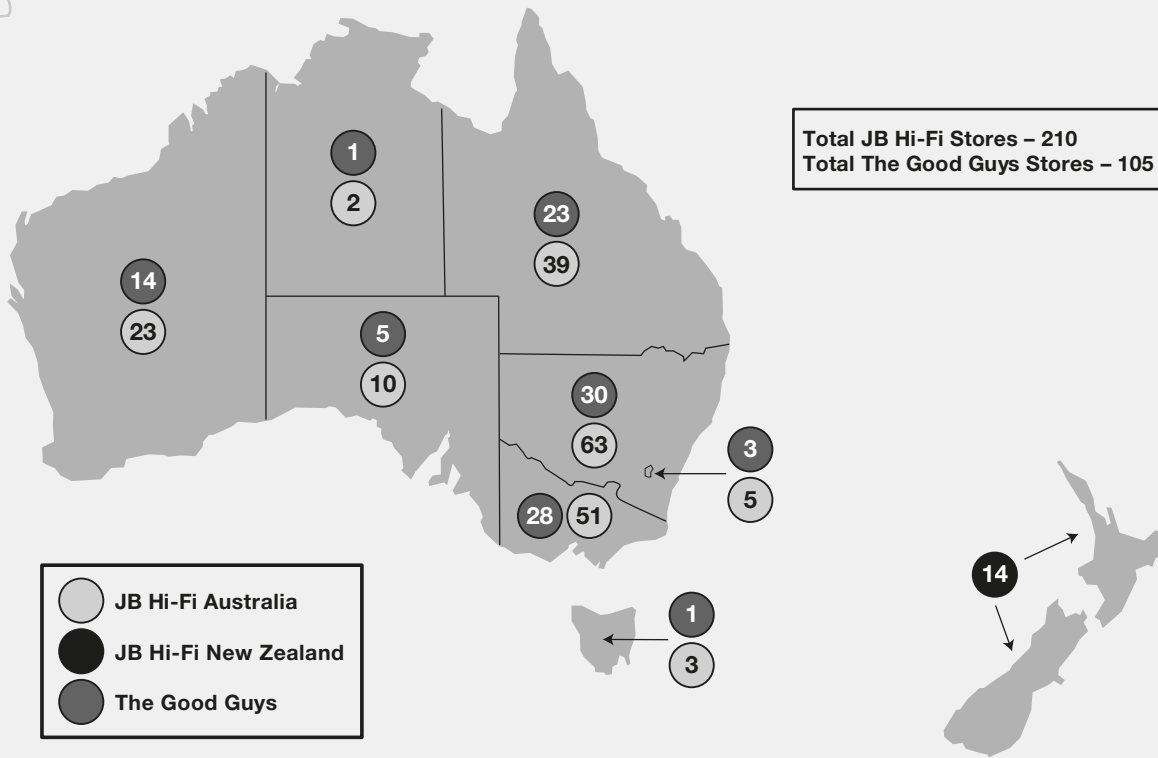
Total inventory on hand decreased from the previous financial year by \$4.4 million as a result of better than expected sales in the key tax time promotional period, and trade and other payables decreased by \$8.4 million. Inventory turnover was 6.3 times up from 6.2 times in FY2018.

Financial and operating leverage remains low as is evidenced by solid fixed charges cover of 3.0 times (FY2018: 2.9 times) and interest cover of 26.1 times (FY2018: 21.1 times). The Company's gearing ratio decreased to 1.0 (FY2018: 1.1).

STORES

The Group's sales are primarily from its branded retail store networks, located both in stand-alone destination sites and shopping centre locations.

The store locations as at 30 June 2019 are set out below.



In Australia, 5 new JB Hi-Fi stores were opened and two were closed in FY2019. One JB Hi-Fi store was closed in New Zealand during FY2019.

Two new The Good Guys stores were opened during FY2019.

JB HI-FI SOLUTIONS (COMMERCIAL, EDUCATION & INSURANCE)

The Group's commercial, insurance and education businesses, JB Hi-Fi Solutions and The Good Guys Commercial, comprises:

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

The business recorded double digit sales growth in FY2019 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.

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 FY2019.

Business risks

There are a number of factors, both specific to the Group 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 the Group. There can be no guarantee that the Group will achieve its stated objectives or that forward looking statements will be realised. The operating and financial performance of the Group 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 the Group operates remain highly competitive and any increased competition from new and existing competitors may lead to price deflation and a decline in sales and profitability. As the #1 player in a fragmented Australian market, the Group's scale allows it to maintain focus on market share and absorb margin pressure during periods of heightened market price activity and consolidation. The Group also believes that its competitive advantages and the plans for growth set out below will allow it to maintain its market leading position.
- A loss or erosion of reputation – both the JB Hi-Fi business and The Good Guys business enjoy a high level of loyalty and trust with customers. The JB Hi-Fi business has been consistently ranked among Australia's most reputable companies in the Corporate Reputation Index released by the Reputation Institute and AMR (1st in 2014 and 2016 and 3rd in 2012, 2013, 2015, 2017 and 2019). The JB Hi-Fi business was also awarded the Roy Morgan Customer Satisfaction Award for Furniture/Electrical store of the year for 2017 and 2019, whilst The Good Guys business won the same award for 2011, 2012, 2013, 2014 and 2016 and finished second in 2019. Additionally, The Good Guys Business won the Canstar Blue Most Satisfied Customers Electronic Retailers Award from 2011 to 2018 with JB Hi-Fi finishing second in 2018. A decline in this high level of loyalty and trust could compromise the market leading positions of the JB Hi-Fi business and The Good Guys business and adversely affect the Group'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 the reputation of the JB Hi-Fi and The Good Guys businesses 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 the Group's IT systems. The Group seeks to mitigate this risk through investment in IT security measures, including incident response planning and testing;
 - a major workplace health and safety incident or customer injury. The Group seeks to mitigate this risk through having appropriate occupational health and safety procedures and staff training 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. A reduction in consumer spending and demand may lead to a decline in the Group's sales and profitability. 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, reflected in the Group's high sales per square metre of floor space. 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 the Group's stores – the Group 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 the JB Hi-Fi and The Good Guys businesses. The Group's market leadership and scale gives it global relevance with suppliers and drives significant buying power which enables the Group to compete successfully with online players, as does its low cost of doing business. The Group also believes that the existence of its store networks will continue to provide confidence in after-sales service and support to its online customers, whilst also enabling fast online fulfilment via delivery from stores and click & collect.
- Digitisation of physical software leading to a fall in traditional software sales beyond expectations – the JB Hi-Fi business will maintain a software presence in store while the category is still providing solid returns, whilst adjusting inventory, range and in-store space allocated to the category as appropriate.
- Ineffective inventory management - a failure to maintain sufficient inventory (or holding excessive inventory) may adversely affect the Group's operating and financial performance. The Group mitigates this risk through regular monitoring of inventory quality and stock levels.
- Failure to maintain key supplier relationships – the Group has strong partnerships with all major suppliers, with its dual brand retail approach providing ranging and merchandising optionality and facilitating the execution of strategic initiatives at scale. The Group's store locations and high traffic websites provide suppliers with high visibility for their products. However, a failure to maintain key supplier relationships could adversely impact on the Group's operating and financial performance. 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 the businesses means that reliance on any one supplier or product is less than for some smaller competitors. In addition, the JB Hi-Fi and The Good Guys businesses have proven records 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.
- Acquisition of The Good Guys business – the acquisition of The Good Guys business does not deliver the expected outcomes for the Group. For example, The Good Guys business does not, itself, perform as expected or the acquisition has an adverse effect on the performance of the JB Hi-Fi business due to, for example, management being preoccupied with The Good Guys business.
- Growth of JB Hi-Fi Solutions and The Good Guys Commercial - the JB Hi-Fi Solutions and The Good Guys Commercial businesses do not deliver the expected growth outcomes for the Group. The Group continues to invest in these businesses to support their continued growth.
- JB Hi-Fi New Zealand business - if the performance of the JB Hi-Fi New Zealand business does not improve as expected, this may have an adverse impact on the Group's operating and financial performance. The Group is in the process of implementing a turnaround strategy to improve performance in the JB Hi-Fi New Zealand business.
- 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% over the past 5 years to 30 June 2019), and rising energy costs. 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.
- 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 Group executive team.
- IT systems – the Group's increasing reliance on IT systems means that outages, disruptions and security breaches 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 these risks, the Group has documented disaster recovery processes (including off-site IT back-up infrastructure) and invests in IT security measures. The Group also continues to invest and develop its IT resources and capabilities to support the Group's strategic objectives.

- 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 – a breach of the Group's debt covenants or inability to access financing facilities would adversely affect the Group's operating and financial performance. The Group has significant headroom in both its debt facilities and covenants. Additionally, cash flow forecasts and debt capacity are closely monitored by management. Details of the Group's financing facilities are set out on page 26.
- Fraud and corruption – the Group has no history of material fraud or corruption, and seeks to minimise the risk of loss arising from fraud and corruption through appropriate policies, procedures and controls.
- Changes to Australian Accounting Standards – the Australian Accounting Standards are set by the Australian Accounting Standards Board ("AASB"). Changes to the Australian Accounting Standards issued by AASB could adversely affect the financial performance and position reported in the Group's financial statements.
- Litigation/breach of legal or regulatory requirements – legal proceedings and claims may arise from time to time in the ordinary course of the Group's businesses and may result in high legal costs, adverse monetary judgements and/or damage to the Group's businesses which could have an adverse impact on the Group's financial position and financial performance. Additionally, a significant breach of regulatory requirements or laws could adversely impact the Group's ability to carry on its business. 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.

Business Strategies

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

- 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 focus on customer service and in-store experience;
- 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 which will continue to drive new and replacement sales;
- realisation of efficiencies from the acquisition of The Good Guys and leveraging the scale of the Group;
- continued development of the Group's websites and online offering, 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 The Good Guys Commercial and expand into new markets;
- ongoing focus on the Group merchandise function to provide strategic guidance and oversight of the Group's buying, identify Group buying opportunities and strengthen supplier relationships;
- design and implementation of an expanded services offering for the JB Hi-Fi Australia business;
- continued execution of the Group's strategy to improve the performance of the JB Hi-Fi New Zealand business;
- personalisation of marketing and customer experiences;
- improved supply chain and logistics systems to support the Group's expansion; and
- continued mitigation of the business risks faced by the Group detailed on pages 28 to 30.

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TRADING OUTLOOK – as at 12 August 2019

July 2019 sales update

- total sales growth for the JB Hi-Fi Australia business in July 2019 was 4.1% (July 2018: 2.9%) with comparable sales growth of 3.2% (July 2018: 0.3%);
- total sales growth for the JB Hi-Fi New Zealand business in July 2019 was -0.4% (July 2018: -2.1%) with comparable sales growth of -0.3% (July 2018: 3.4%); and
- total sales growth for The Good Guys business in July 2019 was -2.1% (July 2018: 2.7%) with comparable sales growth of -3.4% (July 2018: 1.4%).

FY2020 Guidance

Whilst there continues to be variability in the sales environment, the Group remains confident in its ability to execute and grow market share. In FY2020 the Company expects total Group sales to be circa \$7.25 billion, comprising:

- JB Hi-Fi Australia \$4.84 billion;
- JB Hi-Fi New Zealand (NZD) \$0.24 billion; and
- The Good Guys \$2.18 billion.

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- Key Management Personnel Equity/Options (page 48)
- Share Options (page 53)

SUMMARY

Remuneration overview

The Board recognises that the performance of the Group depends on the quality and motivation of its people, including both the Group executives (being those persons listed as executives on page 34) and the approximately 12,500 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 incentives ("packages").

Snapshot - FY2019 remuneration

Group executive FY2019 remuneration packages

To remain competitive in attracting and retaining key talent in FY2019 the Board considered the remuneration levels and remuneration structures for Group executives with reference to external market benchmarks as well as the skills, experience, complexity and responsibilities of the executive roles. As a result of this review, for FY2019 the Board:

- increased fixed remuneration by 3.9% for the Group CEO and between 3.0% and 8.4% for other Group Executives (excluding the Group CFO). The Group CFO's fixed remuneration was increased by 16.6% given it had been set low compared to market upon his appointment;
- introduced a minimum shareholding requirement for Group executives to create stronger alignment between executive reward values and shareholder outcomes;
- replaced the previous short and long term incentive structure with a single simpler Variable Reward Plan (VRP). During FY2018 the Board reviewed the previous short term and long term incentive structures in place noting: (i) the difficulty in setting long term EPS growth targets that were seen as motivating by executives and considered challenging enough by shareholders in a volatile retail environment where it is difficult to confidently form a long term view on performance; and (ii) that the success of meeting LTI targets (or not) in past years was often linked to macro-economic factors or share price volatility, as much as the quality of company or executive performance. This led to volatility in LTI vesting (generally near or close to 100% or not at all). The new VRP allows for flexibility in setting performance targets to take into account changing trading conditions, providing a more motivating remuneration framework for Group executives and greater alignment with shareholders, with only 25% of incentives earned being paid in cash and the remainder in restricted shares. Further detail on the new VRP is set out on pages 35 to 37; and
- reduced the overall amount of remuneration offered to Group executives (from what would have been offered had the previous structure been retained for FY2019), reducing the proportion of the reward paid in cash, and increasing the proportion of reward delivered in fully paid ordinary shares that are to be held over the long term under the new minimum shareholding requirement.

Group executive FY2019 incentive achievement

The 2019 financial year has been a successful year for the Group, with management having delivered record revenue (up 3.5%), EBIT (up 6.4%) and EPS (up 7.1%) in a challenging retail environment. This strong performance has been reflected in vesting outcomes of incentives for Group executives, with between 71% and 82% of rewards available under the VRP for the year (or, in the case of Terry Smart, the Company's STI plan) being earned.

In regards to FY2019 VRP targets, 75% of available rewards were linked to financial measures, primarily FY2019 Group EPS growth, with between 65% and 82% of available rewards for the financial performance component earned by each Group executive. The remaining 25% of available rewards were dependent upon the achievement of various strategic measures deemed relevant for the individual executive. Between 71% and 87% of available rewards for this strategic component were earned by each executive. Further detail is set out on pages 36 to 37.

Group executive incentive achievement outcomes under the FY2019 VRP were broadly in line with achievement outcomes under the Group's previous incentive structure when comparing similar financial performance, as shown in the table on page 39.

All long-term incentives ("LTI") issued to Group executives prior to the adoption of the variable reward plan for FY2019 were in the form of share options subject to both service and performance based conditions. Given strong EPS growth in recent years, some of the options issued to Group executives in previous years vested in FY2019.

Non-Executive Directors FY2019 remuneration

Fees for non-executive directors remained at the levels set for FY2018, with no increases. In FY2019 the Company adopted a minimum shareholding requirement for non-executive directors.

FY2020 remuneration

The Company will retain the same structure for FY2020 Group executive remuneration as was used in FY2019.

With the exception of Lynda Blakely and Simon Page who have recently been promoted to their Group executive roles:

- there will be no increases in fixed annual remuneration for Group executives for FY2020; and
- only Tim Carter will receive an increase to his incentive package for FY2020.

The Group financial component of the VRP (EPS growth) will again be set in line with the Company's historical incentive ranges i.e. commencing rewards when performance exceeds the previous year's earnings performance and paying maximum reward at 10% earnings growth. Within this range the % of the incentive payable will be set taking account of Board approved annual budgets and longer term corporate plans.

Fees for non-executive directors will remain at the levels set for FY2018 and FY2019.

GROUP EXECUTIVE REMUNERATION FOR FY2019

Details of executive key management personnel

The following persons acted as executive directors and/or Group executives during and since the end of the financial year and are considered members of key management personnel for reporting purposes:

Executive Director

Richard Murray Group Chief Executive Officer

Executives

Cameron Trainor Managing Director – JB Hi-Fi (Managing Director – Group Merchandise from 13 August 2018 – 18 June 2019)

Terry Smart Managing Director – The Good Guys

Nick Wells Group Chief Financial Officer

Tim Carter Group Supply Chain & Commercial Director

James Saretta Strategy & Digital Director

Lynda Blakely Group HR Director (from 4 June 2019)

Simon Page Group Technology Director (from 4 June 2019)

Group executive remuneration policy – 2019 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 annually reviews the remuneration packages of all Group executives 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 Group executives given the nature of their work and responsibilities.

In setting the FY2019 remuneration packages, the Board and the Remuneration Committee considered a number of factors, including current market practice.

The Remuneration Committee also considered current market conventions with regard to the splits between fixed remunerations and incentive elements. The package splits for FY2019 were as follows:

Executive	<i>Fixed</i>	<i>Incentive⁽ⁱ⁾</i>	<i>Total</i>
R. Murray	33%	67%	100%
C. Trainor	38%	62%	100%
T. Smart	38%	62%	100%
N. Wells	38%	62%	100%
T. Carter	43%	57%	100%
J. Saretta	43%	57%	100%
S. Page	45%	55%	100%
L. Blakely	70%	30%	100%

(i) For all Group executives other than T. Smart, L. Blakely and S. Page, incentive is in the form of VRP. For T. Smart and L. Blakely the incentive is the combined STI/LTI opportunity, and for S. Page the incentive is the combined STI/LTI and VRP opportunity as set out on page 38.

Further details on each of the key elements of Group executive remuneration for the 2019 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.

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Variable Reward Plan Incentive

In FY2018, the Remuneration Committee and the Board reviewed the reward framework to consider what was fit for purpose for the Group going forward in a changing retail environment which is subject to macroeconomic factors often beyond the control of the Group.

When considering the appropriateness of the previous STI and LTI structure, the Board noted that:

- it is increasingly difficult to set long term EPS growth targets that are seen as motivating by executives and considered challenging enough by shareholders in a volatile retail environment where it is difficult to confidently form a long term view on performance; and
- in the past, the success of meeting LTI targets (or not) has often been linked to macro-economic factors or share price volatility as often as the quality of company or executive performance. This has led to volatility in LTI vesting (generally near or close to 100% or not at all).

To address these challenges, for FY2019 the Board elected to simplify its Group executive reward framework to one that is fit for a retail business that is subject to many short term influences by combining the previous Group STI and LTI structures into a single VRP. Under the VRP, performance is assessed at the end of each financial year against a scorecard of robust measures and awards under the VRP are delivered:

- 25% in cash at the end of the one-year performance period; and
- 75% in restricted shares, to be released progressively in equal tranches over years 2, 3 and 4.

This is a significant reduction from the proportion of cash available annually to executives under the previous STI and LTI plans. By granting the majority of the reward as shares that are restricted over the medium to longer term, and are subject to long term share price risk and clawback, the VRP provides for stronger shareholder alignment than the Group's previous STI and LTI program. This, combined with the introduction of minimum shareholding guidelines as set out on page 40, encourages Group executives to think and act like shareholders and to make decisions in the long term interests of the Group.

In addition, in view of the move to an annual performance period rather the previous 3 and 4 year periods applicable to the LTI, Group executive opportunity levels under the VRP were made at a 20% discount to the LTI opportunity levels that would have been offered had the previous structure been retained. The amount of discount reflects relative STI and LTI outcomes over recent years.

During the restricted period dividends are paid on the restricted shares and the executive may exercise votes attaching to these shares. The market value of a share used to calculate the number of restricted shares granted will be the volume weighted average price of shares traded on the ASX in the 5 trading days immediately following the release of the Company's financial results for the year to which the award relates, or the actual average cost incurred by the Company in acquiring the shares.

All rewards under the VRP are subject to clawback at the Board's discretion in the event of fraud, dishonesty, material misstatement, material breach or negligence by the Group executive and in certain other circumstances.

Subject to the Board exercising its discretion to the contrary, a Group executive will not be eligible to receive a VRP award in respect of a particular performance period if, during that period, the executive ceases to be employed, or has given notice of his or her resignation from employment or has been given notice of termination from employment. A Group executive who ceases to be employed during the restriction period will, subject to the Board's discretion:

- forfeit the restricted shares if they are a "bad leaver" (termination for cause or resignation to work for a competitor);
- retain the restricted shares, subject to the restrictions, if they are a "good leaver" (retirement, redundancy, disablement, mental/terminal illness or death).

Treatment of restricted shares where a Group executive leaves in other circumstances is at the Board's discretion.

Further detail on the performance measures under the FY2019 VRP is set out on the following pages.

FY2019 VRP incentive scorecard - performance conditions and outcomes

Under the VRP, performance is assessed at the end of each financial year against a scorecard of robust measures. 75% of the rewards under the plan for each executive are dependent on financial targets and the remaining 25% of the scorecard are based on strategic measures approved by the Board and aligned with the Group's long term corporate plans. The financial targets in the scorecard are predominantly based on Group EPS, with some executives also having targets relating to aspects of the business for which that executive is responsible or where particular focus is required.

For FY2019, for the Group financial component of the VRP, the performance range was in line with the Company's historical incentive ranges i.e. commencing rewards when performance exceeds the previous year's earnings performance and paying maximum reward at 10% earnings growth. Within this range the % of the incentive payable was set taking account of Board approved budgets and longer term corporate plans.

Composition of, and achievement under, the FY2019 VRP for Group executives (STI for Terry Smart) was as follows:

MEASURE		ACHIEVEMENT (as a % of maximum available)	PERFORMANCE COMMENTARY
GROUP CEO – RICHARD MURRAY			
Financial Measures (75%)	Group EPS	77%	Richard achieved above target results in respect of Group EPS (7.1% growth from 203.1 to 217.4 cents per share).
Strategic Measures (25%)	OHS, diversity, succession/talent, strategic initiatives, Investor relations	76%	Richard achieved his overall strategic objectives with continued improvements in OHS metrics (LTIFR down significantly), significant diversity initiatives introduced, implementation of key strategic initiatives, finalisation of Group leadership team and progress in succession planning and talent development, and effective investor relations engagement.
MANAGING DIRECTOR, JB HI-FI – CAMERON TRAINOR (GROUP MERCHANDISE DIRECTOR FROM AUGUST 2018 – JUNE 2019)			
Financial Measures (75%)	Group EPS, Group comparative sales, Group stock turns, Group synergies/ cost-out	77%	Cameron achieved above target results in respect of Group EPS (7.1% growth from 203.1 to 217.4 cents per share), and achieved the maximum available in respect of Group stock turn and Group synergy targets. Achievement for Group comparative sales was below target.
Strategic Measures (25%)	Establish Group Merchandise Function, OHS, succession/talent/ diversity, Group services & Private Label Strategy	78%	Cameron achieved his overall strategic objectives with the successful establishment of Group Merchandise Function, continued improvements in OHS metrics (LTIFR down significantly), progress in succession planning and talent development in merchandise teams across the Group, and implementation of Private Label Strategy with introduction of the "FFalcon" brand.
MANAGING DIRECTOR, THE GOOD GUYS – TERRY SMART⁽¹⁾			
Financial Measures (75%)	Group EPS, TGG EBIT, TGG comparative sales, TGG stock turns	65%	Terry achieved above target results in respect of Group EPS (7.1% growth from 203.1 to 217.4 cents per share) and The Good Guys EBIT. Achievement for The Good Guys comparative sales growth and stock turns was below target.
Strategic Measures (25%)	OHS, succession/ talent/diversity, Group Merchandise Function, category architecture, process improvements and simplification	87%	Terry exceeded his overall strategic objectives with continued improvements in OHS metrics (LTIFR down significantly), progress in succession planning and talent development including key leadership appointments in The Good Guys senior management and executive teams, supporting the successful establishment of Group Merchandise Function, implementation of category architecture resulting in improvements in store layout and merchandising, and significant improvements in and simplification of business processes resulting in cost savings.

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MEASURE		ACHIEVEMENT (as a % of maximum available)	PERFORMANCE COMMENTARY
GROUP CFO – NICK WELLS			
Financial Measures (75%)	Group EPS, Group synergies/ costs-out, Group stock turns, Group interest expense	80%	Nick achieved above target results in respect of Group EPS (7.1% growth from 203.1 to 217.4 cents per share) and Group interest expense, and achieved the maximum available in respect of Group stock turn and Group synergy targets.
Strategic Measures (25%)	OHS, succession/ talent/diversity, risk management, investor relations, Support Office consolidation	77%	Nick achieved his overall strategic objectives with continued improvements in OHS metrics (LTIFR down significantly), progress in succession planning and talent development and diversity within the finance team, effective investor relations engagement and successful consolidation of JB Hi-Fi and TGG Support Offices into one support office.
GROUP SUPPLY CHAIN & COMMERCIAL DIRECTOR – TIM CARTER			
Financial Measures (75%)	Group EPS, JB Hi-Fi Solutions EBIT, JB Hi-Fi Solutions comparable sales growth, supply chain savings	82%	Tim achieved above target results in respect of Group EPS (7.1% growth from 203.1 to 217.4 cents per share) and supply chain savings, and achieved the maximum available in respect of JB Hi-Fi Solutions EBIT and comparable sales growth.
Strategic Measures (25%)	OHS, succession/ talent/diversity, Group supply chain strategy, Group Private Label Strategy, Group Commercial strategy	83%	Tim exceeded his overall strategic objectives with continued improvements in OHS metrics (LTIFR down significantly), progress in succession planning and talent development including key leadership appointments, development of Group supply chain strategy, implementation of Private Label Strategy with introduction of the “FFalcon” brand, and continued roll-out of Group commercial strategy including JB Hi-Fi Solutions and The Good Guys Commercial.
STRATEGY & DIGITAL DIRECTOR – JAMES SARETTA			
Financial Measures (75%)	Group EPS, JB Hi-Fi Online EBIT, JB Hi-Fi Online comparative sales, Group synergies/costs-out	81%	James achieved above target results in respect of Group EPS (7.1% growth from 203.1 to 217.4 cents per share), and achieved the maximum available in respect of JB Hi-Fi Online EBIT, JB Hi-Fi Online comparative sales growth, and Group synergy targets.
Strategic Measures (25%)	Group strategy framework, Group supply chain strategy, role of brands strategy, succession/ talent/diversity, OHS	71%	James achieved his overall strategic objectives with ongoing development of the Group’s strategy framework, the Group’s role of brands strategy and the Group’s succession planning & talent development framework, and improvement in OHS metrics (LTIFR down significantly).

Notes

- Given T. Smart received a one-off 3 year grant of LTI on re-joining the Group in April 2017, he did not participate in the VRP for FY2019. Instead, he was able to earn an STI in FY19. Further detail is set out below.
- Information for L. Blakely and S. Page is not included as they only became key management personnel on 4 June 2019.

Short-term incentive

Given Terry Smart received a one-off 3 year grant of LTI on re-joining the Group in April 2017, he did not participate in the VRP for FY2019. Instead, he was able to earn an STI in FY19 based on the same scorecard structure as other Group executives under the VRP. 80% of Terry's STI will be paid in cash, with the remaining 20% deferred into shares which are subject to a restriction on sale/disposal for 1 year after issue. The number of shares granted is 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 FY2019 results to the ASX. From FY2021 Terry will participate in the VRP.

Simon Page and Lynda Blakely were also eligible to receive STIs in FY2019, having only been appointed as Group executives (and become key management personnel) on 4 June 2019. Simon and Lynda will participate in the VRP (and will not be eligible to receive STIs) in FY2020.

Long-Term Incentive ("LTI") Plan

Some of the options granted to Group executives prior to FY2019 under the Company's previous LTI structure vested in FY2019. Details of options that vested and were exercised are set out on page 51.

Further details of the terms of these options are included under the heading "Group share option plans" on page 53.

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 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 and the table on page 39.

	FY2015	FY2016	FY2017	FY2018	FY2019	Growth	
						FY2019	CAGR Last 5 years ⁽ⁱⁱ⁾
1. Financial performance:							
Sales (\$m)	3,625.1	3,954.5	5,628.0	6,854.3	7,095.3	4%	15%
EBIT (\$m)	200.9	221.2	290.5 ^(v)	350.6	372.9	6%	14%
Net profit attributable to owners of the Company (\$m)	136.5	152.2	192.2 ^(v)	233.2	249.8	7%	14%
Basic EPS (cents)	137.9	153.8	172.1 ^(v)	203.1	217.4	7%	11%
2. Shareholder value created:							
Company share price at the end of the reporting period (\$)	19.48	24.10	23.37	22.52	25.85	15%	7%
Market capitalisation (\$m)	1,928.3	2,384.6	2,674.0	2,587.2	2,969.7	15%	10%
Enterprise value ⁽ⁱ⁾ (\$m)	2,018.7	2,442.5	3,160.0	2,984.5	3,289.6	10%	11%
Movement in enterprise value during the financial year (\$m)	71.7	423.8	717.5	(175.5)	305.1		
Dividends paid to shareholders during the financial year (\$m)	87.2	93.2	119.1	151.6	157.4	4%	15%
On market share buy-back (\$m)	5.0	13.2	-	-	-		
Shareholder value created⁽ⁱⁱ⁾							
- per annum (\$m)	163.9	530.2	836.6	(23.9)	462.5		
- cumulative (\$m) since IPO	2,561.2	3,091.4	3,928.1	3,904.2	4,366.7	12%	22% ^(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.

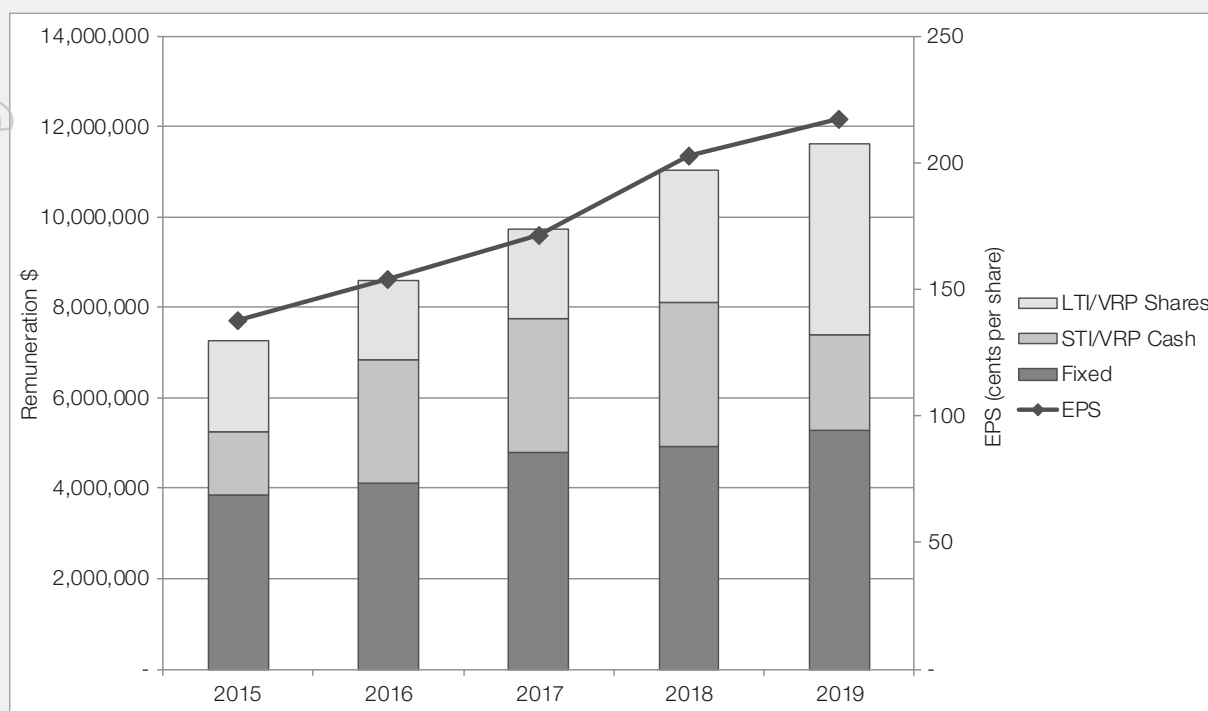
(iii) Percentage movement shown is the compound annual growth rate over the last 5 years.

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

(v) FY2017 EBIT, net profit and EPS exclude transaction fees and implementation costs totalling \$22.4m associated with the acquisition of The Good Guys in November 2016 but include New Zealand Goodwill and New Zealand Fixed Asset impairments of \$15.8 million.

The graph below shows the relationship between total Group executive remuneration and EPS over the past 5 years and the high correlation of Group executive remuneration with Company performance.

Group executive remuneration and EPS over the last 5 financial years:



Notes

1. The graph shows the aggregate total of remuneration for the Group executive team for each year from 2015 to 2019, excluding payments made in relation to departures from the Group. The number of executives engaged during each of these years varied.
2. LTI/VRP expense is the current period LTI/VRP expense only, excluding any prior period write-backs.
3. EPS in FY2017 excludes transaction fees and implementation costs totalling \$22.4m associated with the acquisition of The Good Guys in November 2016 but includes New Zealand Goodwill and New Zealand Fixed Asset impairments of \$15.8 million.

Group CEO STI and VRP incentive achievement over the last 5 financial years:

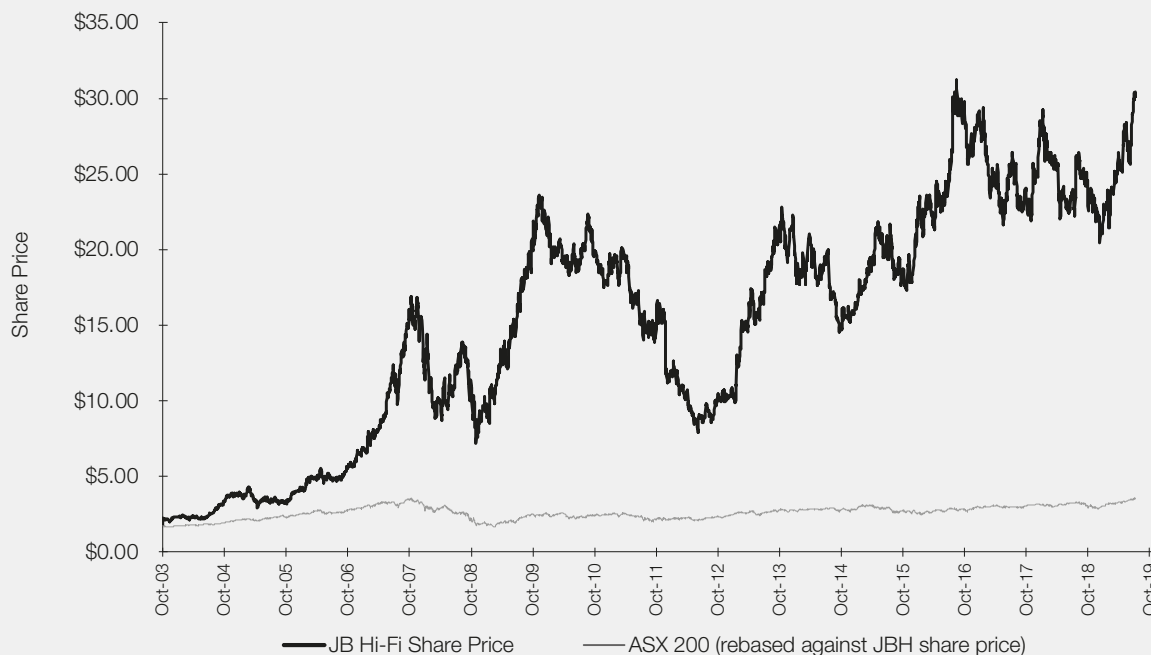
Group executive incentive achievement outcomes continue to align with the financial performance and strategic objectives of the Group. The table below sets out the Group CEO's incentive achievement over the last 5 years, with FY2019 under the VRP and FY2015 to FY2018 under the Group's previous STI incentive structure.

Financial Year ⁽ⁱ⁾	Group Financial Target			Non-Financial Target Achievement	Total Achievement
	Incentive Target (Growth)	Actual Growth	Achievement		
2015	0 - 10%	5.1%	51%	100%	63%
2016	0 - 10%	10.1%	100%	100%	100%
2017	0 - 10%	21.2%	100%	100%	100%
2018	23% - 34% ⁽ⁱⁱ⁾	30.8%	71%	96%	77%
2019	0 - 10%	7.1%	77%	74%	76%

Notes

- (i) FY2015 – FY2018 STI target based on EBIT, FY2019 VRP target based on EPS.
- (ii) FY2018 target increased due to the acquisition of The Good Guys and JB Hi-Fi New Zealand goodwill impairment in the base in the prior year, on an underlying basis this represented 0-10% growth target.

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 2019. The JB Hi-Fi closing share price compound annual growth rate between listing and 1 August 2019 is 20.0%, whilst the ASX 200 compound annual growth rate over the same period is 4.7%.



Key terms of executive employment agreements

The remuneration and other terms of employment for each of the Group 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 6 months' notice if notice is given by the executive 6 months' post termination non-compete and non-solicitation restriction
T. Smart, N. Wells, T. Carter, J. Saretta, L. Blakely, S. Page	6 months' notice (or payment in lieu) 6 months' post termination non-compete and non-solicitation restriction

Each Group 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 Group executive service contracts 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.

Minimum shareholding guidelines

Building Group executive shareholdings is a priority of the Board in the context of executive retention, and to ensure Group executives are invested in the long term success of the Group and aligned with shareholder interests.

In conjunction with introducing the VRP, a minimum shareholding requirement for senior executives was introduced in FY2019, being:

- 1.5 times fixed pay for the CEO; and
- 1.0 times fixed pay for the other Group executives.

This level of shareholding is required to be built over 5 years from the introduction of the VRP (or appointment, if later).

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NON-EXECUTIVE DIRECTOR REMUNERATION

FY2019 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
Stephen Goddard	Non-executive Director and Member of the Audit and Risk Management Committee
Beth Laughton	Non-executive Director, Chair of the Audit and Risk Management Committee and Member of the Remuneration Committee
Mark Powell	Non-executive Director and Member of the Audit and Risk Management Committee
Wai Tang	Non-executive Director, Member of the Audit and Risk Management Committee and the Remuneration Committee
Richard Uechtritz	Non-executive Director

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 enable the Board 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 FY2019 are set out below and are at the same level as those for FY2018. Aggregate non-executive director remuneration for FY2019 was within the amount determined by the Company in its Annual General Meeting on 26 October 2017 being \$1,500,000.

Role	<i>Fees 2019 \$</i>	<i>Fees 2018 \$</i>
Chair of the Board	\$300,000	\$300,000
Non-executive director	\$134,000	\$134,000
<i>Additional Committee Fees</i>		
Remuneration Committee Chair	\$25,000	\$25,000
Audit and Risk Management Committee Chair	\$32,000	\$32,000
Audit and Risk Management Committee member	\$16,000	\$16,000
Remuneration Committee member	\$14,000	\$14,000

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 not to 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 or the VRP.

In order to further align non-executive directors with shareholders of the Company, a minimum shareholding requirement for non-executive directors was introduced in October 2018, being 1 times the base board fees for the non-executive director. This level of shareholding is required to be built over 5 years from the introduction of the policy (or appointment, if later).

FY2020 Non-Executive Director Remuneration

Non-executive directors' fees will remain at the current level for FY2020. 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

Remuneration recommendations

In FY2018, KPMG-3dc was engaged to provide remuneration recommendations for FY2019 in accordance with the provisions of the *Corporations Act 2001* and was paid \$16,000 (excluding GST) for remuneration recommendations regarding the FY2019 remuneration levels for the Group CEO and Group CFO. KPMG-3dc provided a formal declaration confirming that its recommendations were made free from undue influence by the member or members of the key management personnel to whom the recommendations related and, in view of this declaration and the process adopted in the engagement of KPMG-3dc and receipt of its recommendations, the Board is satisfied that each of the recommendations were free of undue influence by such persons.

During FY2019, KPMG-3dc acted as remuneration advisor to the Remuneration Committee. No remuneration recommendations (as defined in the *Corporations Act*) were provided by KPMG-3dc during FY2019.

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 Group executives to obtain prior written approval from the Chair of the Board before altering the economic benefit or risk derived by them in relation to any shares or vested 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 2019 financial year from all directors and Group executives.

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KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel for FY2019 include the non-executive directors and the eight identified executives set out on page 34.

The aggregate compensation of the key management personnel of the Group for FY2019 is set out below:

	Consolidated	
	2019 \$	2018 \$
Short-term employee benefits		
Salary, fees & allowances	6,175,428	5,796,481
Bonus	746,652	3,177,120
VRP Cash	1,388,686	–
	8,310,766	8,973,601
Post-employment benefits		
Superannuation	238,607	230,482
	238,607	230,482
Share based payments		
Options expense	2,723,538	2,942,717
VRP expense	1,506,541	–
	4,230,079	2,942,717
	12,779,452	12,146,800

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REMUNERATION REPORT (continued)

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			Total
	Salary, fees & allowances	Bonus ⁽ⁱ⁾	VRP Cash ⁽ⁱⁱ⁾	Super-annuation	Options ⁽ⁱⁱⁱ⁾	VRP ⁽ⁱⁱⁱ⁾	Total share based payments	
2019	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive directors								
G. Richards	304,951	-	-	304,951	20,049	-	-	325,000
B. Laughton	164,384	-	-	164,384	15,616	-	-	180,000
W. Tang	149,772	-	-	149,772	14,228	-	-	164,000
R. Uechtritz	122,374	-	-	122,374	11,626	-	-	134,000
S. Goddard	136,986	-	-	136,986	13,014	-	-	150,000
M. Powell	136,986	-	-	136,986	13,014	-	-	150,000
	1,015,453	-	-	1,015,453	87,547	-	-	1,103,000
Executives								
R. Murray	1,324,519	-	534,759	1,859,278	24,519	930,246	579,323	3,393,366
C. Trainor	1,003,943	-	319,277	1,323,220	24,519	430,514	345,883	2,124,136
T. Smart ^(iv)	1,004,036	727,421	-	1,731,457	25,000	657,865	-	2,414,322
N. Wells	673,557	-	222,458	896,015	24,519	264,900	240,996	1,426,430
T. Carter	549,999	-	159,467	709,466	24,519	235,319	172,756	1,142,060
J. Saretta	550,000	-	152,725	702,725	24,519	185,263	165,452	1,077,959
S. Page ^(v)	33,092	15,385	-	48,477	1,886	15,447	2,131	67,941
L. Blakely ^(v)	20,829	3,846	-	24,675	1,579	3,984	-	30,238
	5,159,975	746,652	1,388,686	7,295,313	151,060	2,723,538	1,506,541	11,676,452
	6,175,428	746,652	1,388,686	8,310,766	238,607	2,723,538	1,506,541	12,779,452

- (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) In accordance with Accounting Standards, remuneration includes the amortisation of the value of VRP that is paid in restricted shares. The value of shares is progressively allocated to profit and loss over the restriction period of the share.
- (iv) Given T. Smart received a one-off 3 year grant of LTI on re-joining the Group in April 2017, he did not participate in the VRP for FY2019. Instead, he was able to earn an STI in FY19. 80% of this STI will be paid in cash with 20% paid in deferred shares. Further detail is set out on page 38.
- (v) All amounts disclosed for S. Page and L. Blakely are for the period that they were classified as key management personnel (4 June 2019 to 30 June 2019).

Performance based Short-term employee benefits

	Bonus				VRP Cash			
	Maximum Potential		Actual		Maximum Potential		Actual	
	<i>% of total potential</i>	<i>% of total actual</i>	<i>% of total potential</i>	<i>% of total actual</i>	<i>% of total potential</i>	<i>% of total potential</i>	<i>% of total actual</i>	<i>% of total actual</i>
2019	<i>\$ remuneration</i>	<i>\$ remuneration</i>	<i>\$ remuneration</i>	<i>\$ remuneration</i>	<i>\$ remuneration</i>	<i>\$ remuneration</i>	<i>\$ remuneration</i>	<i>\$ remuneration</i>
Executives								
R. Murray	-	-	-	-	698,625	19%	534,759	16%
C. Trainor	-	-	-	-	412,000	18%	319,277	15%
T. Smart ⁽ⁱ⁾	1,030,000	38%	727,421	30%	-	-	-	-
N. Wells	-	-	-	-	280,000	18%	222,458	16%
T. Carter	-	-	-	-	194,063	16%	159,467	14%
J. Saretta	-	-	-	-	194,063	17%	152,725	14%
S. Page ⁽ⁱⁱ⁾	19,615	27%	15,385	23%	-	-	-	-
L. Blakely ⁽ⁱⁱ⁾	3,846	13%	3,846	13%	-	-	-	-
	1,053,461	8%	746,652	6%	1,778,751	14%	1,388,686	12%

Performance based Share based payments

	Options				VRP Shares			
	Maximum Potential		Actual		Maximum Potential		Actual	
	<i>% of total potential</i>	<i>% of total actual</i>	<i>% of total potential</i>	<i>% of total actual</i>	<i>% of total potential</i>	<i>% of total potential</i>	<i>% of total actual</i>	<i>% of total actual</i>
2019	<i>\$ remuneration</i>	<i>\$ remuneration</i>	<i>\$ remuneration</i>	<i>\$ remuneration</i>	<i>\$ remuneration</i>	<i>\$ remuneration</i>	<i>\$ remuneration</i>	<i>\$ remuneration</i>
Executives								
R. Murray	930,246	25%	930,246	27%	756,844	20%	579,323	17%
C. Trainor	430,514	19%	430,514	20%	446,333	19%	345,883	16%
T. Smart ⁽ⁱ⁾	657,865	24%	657,865	27%	-	-	-	-
N. Wells	264,900	17%	264,900	19%	303,333	20%	240,996	17%
T. Carter	235,319	19%	235,319	21%	210,234	17%	172,756	15%
J. Saretta	185,263	16%	185,263	17%	210,234	18%	165,452	15%
S. Page ⁽ⁱⁱ⁾	15,447	21%	15,447	23%	2,778	4%	2,131	3%
L. Blakely ⁽ⁱⁱ⁾	3,984	13%	3,984	13%	-	-	-	-
	2,723,538	21%	2,723,538	23%	1,929,756	15%	1,506,541	13%

- (i) Given T. Smart received a one-off 3 year grant of LTI on re-joining the Group in April 2017, he did not participate in the VRP for FY2019. Instead, he was able to earn an STI in FY19. Further detail is set out on page 38.
- (ii) All amounts disclosed for S. Page and L. Blakely are for the period that they were classified as key management personnel (4 June 2019 to 30 June 2019).

REMUNERATION REPORT (continued)

The VRP Shares amounts included in the table above represent the FY2019 Maximum Potential accounting expense and Actual accounting expense recognised in accordance with Accounting Standards. The Maximum Potential VRP Shares available for each Group Executive, based on their remuneration package, and the Actual VRP Shares earned in FY2019 (to be issued in August 2019), is set out in the table below.

	VRP Incentive Package			VRP Incentive Achieved			
	<i>Maximum Potential Cash</i>	<i>Maximum Potential Shares</i>	<i>Total VRP Incentive Package</i>	<i>Achieved</i>	<i>Actual Cash</i>	<i>Actual Shares</i>	<i>Total VRP achieved</i>
2019	\$	\$	\$	%	\$	\$	\$
Executives							
R. Murray	698,625	2,095,875	2,794,500	77%	534,759	1,604,278	2,139,037
C. Trainor	412,000	1,236,000	1,648,000	78%	319,277	957,831	1,277,108
T. Smart	-	-	-	-	-	-	-
N. Wells	280,000	840,000	1,120,000	79%	222,458	667,373	889,831
T. Carter	194,063	582,188	776,251	82%	159,467	478,402	637,869
J. Saretta	194,063	582,188	776,251	79%	152,725	458,174	610,899
S. Page ⁽ⁱ⁾	-	7,692	7,692	77%	-	5,902	5,902
L. Blakely ⁽ⁱ⁾	-	-	-	-	-	-	-
	1,778,751	5,343,943	7,122,694	78%	1,388,686	4,171,960	5,560,646

(i) All amounts disclosed for S. Page and L. Blakely are for the period that they were classified as key management personnel (4 June 2019 to 30 June 2019).

	Short-term employee benefits			Post-employment benefits	Share based payments	Total
	<i>Salary, fees & allowances</i>	<i>Bonus⁽ⁱ⁾</i>	<i>Total short-term employee benefits</i>	<i>Super-annuation</i>	<i>Options⁽ⁱⁱ⁾</i>	
2018	\$	\$	\$	\$	\$	\$
Non-executive directors						
G. Richards	304,951	-	304,951	20,049	-	325,000
B. Laughton	164,384	-	164,384	15,616	-	180,000
W. Tang	149,772	-	149,772	14,228	-	164,000
R. Uechtritz	122,374	-	122,374	11,626	-	134,000
S. Goddard	136,986	-	136,986	13,014	-	150,000
M. Powell	136,986	-	136,986	13,014	-	150,000
	1,015,453	-	1,015,453	87,547	-	1,103,000
Executives						
R. Murray	1,274,058	999,622	2,273,680	24,712	1,063,151	3,361,543
C. Trainor	925,770	580,114	1,505,884	23,750	497,240	2,026,874
T. Smart	960,527	602,904	1,563,431	20,049	657,865	2,241,345
N. Wells	572,981	349,992	922,973	24,712	287,171	1,234,856
T. Carter	523,942	320,826	844,768	24,712	266,947	1,136,427
J. Saretta	523,750	323,662	847,412	25,000	170,343	1,042,755
	4,781,028	3,177,120	7,958,148	142,935	2,942,717	11,043,800
	5,796,481	3,177,120	8,973,601	230,482	2,942,717	12,146,800

(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.

Performance based

	Short-term employee benefits				Share based payments			
	Maximum Potential STI		Actual STI		Maximum Potential LTI		Actual LTI	
	<i>Bonus</i>		<i>Bonus</i>		<i>Options</i>		<i>Options</i>	
	<i>\$</i>	<i>% of total potential remuneration</i>	<i>\$</i>	<i>% of total actual remuneration</i>	<i>\$</i>	<i>% of total potential remuneration</i>	<i>\$</i>	<i>% of total actual remuneration</i>
2018								
Executives								
R. Murray	1,300,000	35%	999,622	30%	1,063,151	29%	1,063,151	32%
C. Trainor	712,500	33%	580,114	29%	497,240	23%	497,240	25%
T. Smart	1,000,000	38%	602,904	27%	657,865	25%	657,865	29%
N. Wells	450,000	34%	349,992	28%	287,171	21%	287,171	23%
T. Carter	412,500	34%	320,826	28%	266,947	22%	266,947	23%
J. Saretta	412,500	36%	323,662	31%	170,343	15%	170,343	16%
	4,287,500	35%	3,177,120	29%	2,942,717	24%	2,942,717	27%

All bonuses are paid in the financial year following the year in which they were earned, for example the 2019 financial year bonuses are paid in August 2019 (the 2020 financial year).

KEY MANAGEMENT PERSONNEL EQUITY/OPTIONS
Fully paid ordinary shares of JB Hi-Fi Limited

2019	<i>Balance at 1 July 2018 No.</i>	<i>Granted as compensation⁽ⁱ⁾ No.</i>	<i>Received on exercise of options No.</i>	<i>Net other change No.</i>	<i>Balance at 30 June 2019 No.</i>	<i>Balance held nominally No.</i>
G. Richards	26,486	-	-	-	26,486	3,455
B. Laughton	4,304	-	-	1,500	5,804	-
W. Tang	5,000	-	-	-	5,000	-
R. Uechtritz	11,516	-	-	-	11,516	-
S. Goddard	1,500	-	-	3,000	4,500	-
M. Powell	1,000	-	-	1,000	2,000	-
R. Murray	110,257	7,818	79,568	(87,521)	110,122	-
C. Trainor	15,298	4,537	43,349	(26,365)	36,819	-
T. Smart	51,701	4,715	-	-	56,416	-
N. Wells	20,093	2,737	15,744	(5,816)	32,758	-
T. Carter	3,204	2,509	18,785	(7,636)	16,862	-
J. Saretta	2,479	2,531	-	-	5,010	-
S. Page ⁽ⁱⁱ⁾	-	-	-	5,802	5,802	-
L. Blakely	-	-	-	-	-	-
	252,838	24,847	157,446	(116,036)	319,095	3,455

(i) Shares issued under the Company's executive deferred STI Plan.

(ii) The net other change for S. Page represents the shares held by him when he became a KMP on 4 June 2019.

2018	<i>Balance at 1 July 2017 No.</i>	<i>Granted as compensation⁽ⁱ⁾ No.</i>	<i>Received on exercise of options No.</i>	<i>Net other change No.</i>	<i>Balance at 30 June 2018 No.</i>	<i>Balance held nominally No.</i>
G. Richards	26,486	-	-	-	26,486	3,455
B. Laughton	2,304	-	-	2,000	4,304	-
W. Tang	3,700	-	-	1,300	5,000	-
R. Uechtritz	11,516	-	-	-	11,516	-
S. Goddard	1,500	-	-	-	1,500	-
M. Powell	-	-	-	1,000	1,000	-
R. Murray	105,572	7,953	112,629	(115,897)	110,257	-
C. Trainor	10,070	5,228	86,614	(86,614)	15,298	-
T. Smart	50,000	1,701	-	-	51,701	-
N. Wells	11,314	2,316	12,403	(5,940)	20,093	-
T. Carter	888	2,316	13,787	(13,787)	3,204	-
J. Saretta	163	2,316	-	-	2,479	-
	223,513	21,830	225,433	(217,938)	252,838	3,455

(i) Shares issued under the Company's executive deferred STI Plan.

Share options of JB Hi-Fi Limited

	<i>Balance at 1 July 2018 No.</i>	<i>Granted as compensation No.</i>	<i>Exercised No.</i>	<i>Net other change⁽ⁱ⁾ No.</i>	<i>Balance at 30 June 2019 No.</i>	<i>Balance vested at 30 June 2019 No.</i>	<i>Options vested during year No.</i>
2019							
R. Murray	270,823	–	(79,568)	–	191,255	–	79,568
C. Trainor	129,439	–	(43,349)	–	86,090	–	43,349
T. Smart	106,312	–	–	–	106,312	–	–
N. Wells	68,757	–	(15,744)	–	53,013	–	15,744
T. Carter	69,347	–	(18,785)	–	50,562	–	18,785
J. Saretta	29,418	–	–	–	29,418	880	–
S. Page	–	–	–	33,646	33,646	–	–
L. Blakely	–	–	–	6,867	6,867	–	–
	674,096	–	(157,446)	40,513	557,163	880	157,446

(i) Net other change represents the options held by S. Page and L. Blakely when they became a KMP on 4 June 2019.

	<i>Balance at 1 July 2017 No.</i>	<i>Granted as compensation No.</i>	<i>Exercised No.</i>	<i>Net other change No.</i>	<i>Balance at 30 June 2018 No.</i>	<i>Balance vested at 30 June 2018 No.</i>	<i>Options vested during year No.</i>
2018							
R. Murray	322,105	61,347	(112,629)	–	270,823	–	112,629
C. Trainor	182,430	33,623	(86,614)	–	129,439	–	86,614
T. Smart	106,312	–	–	–	106,312	–	–
N. Wells	59,925	21,235	(12,403)	–	68,757	–	12,403
T. Carter	67,562	15,572	(13,787)	–	69,347	–	13,787
J. Saretta	13,846	15,572	–	–	29,418	–	–
	752,180	147,349	(225,433)	–	674,096	–	225,433

During the financial year 65,548 zero exercise price options (FY2018: 44,725) and 91,898 options with an exercise price (FY2018: 180,708) were exercised by key management personnel. The weighted average exercise price for options with an exercise price was \$17.81 (FY2018: \$13.89) 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 and by the key management personnel:

	<i>Value of options granted – at the grant date⁽ⁱ⁾</i>	<i>Value of options exercised – at the exercise date</i>
2019	\$	\$
R. Murray	–	1,192,954
C. Trainor	–	630,182
T. Smart	–	–
N. Wells	–	257,514
T. Carter	–	269,578
J. Saretta	–	–
S. Page ⁽ⁱⁱ⁾	–	–
L. Blakely ⁽ⁱⁱ⁾	–	–
	–	2,350,228

(i) The value of options granted during the period is recognised in remuneration over the vesting period of the option, in accordance with Accounting Standards.

(ii) There were no options granted to or exercised by S. Page and L. Blakely since they became KMP's on 4 June 2019.

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

There were no share options granted during the financial year to key management personal following the change in remuneration structure to the VRP as set out on pages 35 to 37.

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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	94.3	8,964	23/08/2018	8,964	\$18.93	\$25.59	5%	Yes
	95.1	27	23/08/2018	27	\$18.93	\$25.59	5%-10%	Yes
	95.2	27	23/08/2018	27	\$18.93	\$25.59	5%-10%	Yes
	95.3	3,842	23/08/2018	3,842	\$18.93	\$25.59	5%-10%	Yes
	97	7	23/08/2018	7	–	\$25.59	5%-10%	Yes
	99	7	23/08/2018	7	–	\$25.59	5%-10%	Yes
	100	2,286	23/08/2018	2,286	–	\$25.59	5%	Yes
	101	980	23/08/2018	980	–	\$25.59	5%-10%	Yes
	103.2	23,692	23/08/2018	23,692	\$17.72	\$25.59	5%	Yes
	104.2	10,154	23/08/2018	10,154	\$17.72	\$25.59	5%-10%	Yes
	107	5,227	23/08/2018	5,227	–	\$25.59	5%	Yes
	108	2,240	23/08/2018	2,240	–	\$25.59	5%-10%	Yes
	112	3,734	23/08/2018	3,734	–	\$25.59	n/a	n/a ⁽ⁱ⁾
	128	18,381	23/08/2018	18,381	–	\$25.59	4%-8%	Yes
		<u>79,568</u>		<u>79,568</u>				
C. Trainor	94.3	8,963	23/08/2018	8,963	\$18.93	\$25.59	5%	Yes
	95.1	27	23/08/2018	27	\$18.93	\$25.59	5%-10%	Yes
	95.2	27	23/08/2018	27	\$18.93	\$25.59	5%-10%	Yes
	95.3	3,842	23/08/2018	3,842	\$18.93	\$25.59	5%-10%	Yes
	97	10	14/08/2018	10	–	\$24.73	5%-10%	Yes
	99	10	14/08/2018	10	–	\$24.73	5%-10%	Yes
	100	3,002	16/08/2018	3,002	–	\$26.19	5%	Yes
	101	1,286	16/08/2018	1,286	–	\$26.19	5%-10%	Yes
	103.2	9,454	22/08/2018	9,454	\$17.72	\$26.00	5%	Yes
	104.2	4,052	22/08/2018	4,052	\$17.72	\$26.00	5%-10%	Yes
	107	2,086	15/08/2018	2,086	–	\$26.17	5%	Yes
	108	894	15/08/2018	894	–	\$26.17	5%-10%	Yes
	112	1,490	15/08/2018	1,490	–	\$26.17	n/a	n/a ⁽ⁱ⁾
	128	8,206	14/08/2018	8,206	–	\$24.73	4%-8%	Yes
		<u>43,349</u>		<u>43,349</u>				
N. Wells	103.2	5,743	23/08/2018	5,743	\$17.72	\$25.59	5%	Yes
	104.2	2,461	23/08/2018	2,461	\$17.72	\$25.59	5%-10%	Yes
	107	1,267	23/08/2018	1,267	–	\$25.59	5%	Yes
	108	543	23/08/2018	543	–	\$25.59	5%-10%	Yes
	112	905	23/08/2018	905	–	\$25.59	n/a	n/a ⁽ⁱ⁾
	128	4,825	23/08/2018	4,825	–	\$25.59	4%-8%	Yes
			<u>15,744</u>		<u>15,744</u>			
T. Carter	117.2	7,436	1/03/2019	7,436	\$15.58	\$22.24	5%	Yes
	118.2	3,187	1/03/2019	3,187	\$15.58	\$22.24	5%-10%	Yes
	121	1,477	26/02/2019	1,477	–	\$21.44	5%	Yes
	122	633	26/02/2019	633	–	\$21.44	5%-10%	Yes
	126	1,055	26/02/2019	1,055	–	\$21.44	n/a	n/a ⁽ⁱ⁾
	128	4,997	20/08/2018	4,997	–	\$26.21	4%-8%	Yes
			<u>18,785</u>		<u>18,785</u>			
		<u>157,446</u>		<u>157,446</u>				

(i) Options did not contain a performance condition as they are a one-off issue of retention options made in August 2014 to each of the executives at that time, as detailed in the Company's 2015 Annual Report.

No options issued to T. Smart, J. Saretta, S. Page or L. Blakely were exercised during the financial year while they were key management personnel.

Options lapsed during the financial year

There were no options issued to the identified key management personnel that 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 or lapsed, since the end of the financial year.

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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. Options issued from FY2013 to FY2019 (inclusive) have the features set out below. Group executives no longer receive options under these schemes and, instead, have the opportunity to earn share ownership-based remuneration under the Group's Variable Reward Plan detailed on pages 35 to 37:

- 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 was 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 or time period, 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 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 options issued before 30 June 2015 and all options issued after 30 June 2015, a zero exercise price;
- for options issued to Group executives in previous years, the majority of options are subject to performance conditions based on EPS growth. Some of the options issued to certain senior managers are also subject to performance hurdles. Options issued have been subject to performance hurdles which require compound annual earnings per share growth of between 4% and 15% per annum;
- service based conditions – the options issued to executives in FY2013 to FY2017 (inclusive) vest a third each on the third, fourth and fifth anniversary of the grant date provided that the executive remains employed at that time. The only exception to this is for options issued to Terry Smart in April 2017, which vest one half each on each of the third and fourth anniversary of the grant date provided that he remains employed at that time. Options issued to executives in FY2018 also vest one half each on each of the third and fourth anniversary of the grant date, provided the relevant 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;
- options issued to non-executive management since 1 July 2012 generally expire five years after they are issued. Options issued to executives between 1 July 2012 and 30 June 2017 generally expire six years after they are issued. Options issued to executives between 1 July 2017 and 30 June 2018 expire five 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;
- 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. However, no retesting takes place in the year of expiry;
- options are valued using the Black-Scholes option pricing model, which takes into account the exercise price, 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;
- 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.

REMUNERATION REPORT (continued)

As detailed in the Company's 2015 Annual Report, in August 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, 78,778 of the outstanding options are vested and exercisable. 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⁾ \$
103-104	63,777	15/08/2014	\$17.66	14/08/2020	\$17.72	30.7%	4.6%	2.9%	\$3.25
109-113	21,111	15/08/2014	\$17.66	14/08/2020	\$0.00	30.7%	4.6%	2.9%	\$14.06
117-118	10,624	27/11/2014	\$15.56	26/11/2020	\$15.58	30.9%	5.3%	2.6%	\$2.51
123-127	3,165	27/11/2014	\$15.56	26/11/2020	\$0.00	30.3%	5.3%	2.6%	\$11.98
129-130	85,745	14/08/2015	\$20.79	13/08/2021	\$0.00	31.2%	4.3%	2.2%	\$17.06
133	48,550	14/08/2015	\$20.79	13/08/2020	\$0.00	31.7%	4.3%	2.2%	\$17.42
135-136	10,959	5/11/2015	\$17.63	4/11/2021	\$0.00	31.1%	4.9%	2.2%	\$14.26
139	747	18/12/2015	\$18.36	17/12/2020	\$0.00	30.4%	5.0%	2.2%	\$14.88
140-142	2,640	2/05/2016	\$22.18	1/05/2022	\$0.00	30.1%	4.2%	2.1%	\$18.19
144-145	74,829	22/08/2016	\$29.50	21/08/2021	\$0.00	29.5%	3.3%	1.5%	\$26.13
146-148	123,256	22/08/2016	\$29.50	21/08/2022	\$0.00	30.1%	3.4%	1.5%	\$25.70
153-154	983	19/10/2016	\$28.79	18/10/2021	\$0.00	29.4%	3.7%	2.2%	\$23.31
156-157	983	2/11/2016	\$27.41	1/11/2021	\$0.00	29.4%	3.7%	2.2%	\$23.31
158-159	106,312	18/04/2017	\$24.46	17/04/2023	\$0.00	28.1%	4.6%	2.0%	\$21.16
160-162	6,951	1/05/2017	\$24.94	30/04/2022	\$0.00	28.3%	4.0%	2.1%	\$21.58
163-167	417,790	29/08/2017	\$23.56	28/08/2022	\$0.00	27.9%	4.6%	2.2%	\$21.47
168-170	251,820	20/08/2018	\$26.21	19/08/2023	\$0.00	27.3%	5.0%	2.2%	\$22.03
171-173	7,595	3/12/2018	\$23.40	2/12/2023	\$0.00	26.6%	5.5%	2.2%	\$19.76
	<u>1,237,837</u>								

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

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.

2019

<i>Option Series</i>	<i>Grant date</i>	<i>Number exercised</i>	<i>Number of shares issued</i>	<i>Amount paid per share \$</i>	<i>Share price at exercise date⁽ⁱ⁾ \$</i>
94-95	16/08/2013	33,399	33,399	\$18.93	\$25.59
97-99	16/08/2013	44	44	\$0.00	\$24.73 to \$25.59
100-101	16/08/2013	9,504	9,504	\$0.00	\$25.59 to \$26.19
103-104	15/08/2014	63,776	63,776	\$17.72	\$25.59 to \$26.00
107-116	15/08/2014	71,205	71,205	\$0.00	\$25.47 to \$26.21
117-118	27/11/2014	10,623	10,623	\$15.58	\$22.24
121-126	27/11/2014	3,165	3,165	\$0.00	\$21.44
128-132	14/08/2015	92,657	92,657	\$0.00	\$24.73 to \$26.21
134	5/11/2015	5,479	5,479	\$0.00	\$23.58
138	18/12/2015	747	747	\$0.00	\$22.98
143	22/08/2016	38,189	38,189	\$0.00	\$25.00 to \$26.40
152	19/10/2016	491	491	\$0.00	\$22.48
155	2/11/2016	491	491	\$0.00	\$23.58
		<u>329,770</u>	<u>329,770</u>		

(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.

2018

<i>Option Series</i>	<i>Grant date</i>	<i>Number exercised</i>	<i>Number of shares issued</i>	<i>Amount paid per share \$</i>	<i>Share price at exercise date⁽ⁱ⁾ \$</i>
80-81	17/08/2012	112,987	112,987	\$9.75	\$23.56 to \$24.83
83-87	17/08/2012	17,799	17,799	\$0.00	\$24.83 to \$25.62
93	16/08/2013	50,798	50,798	\$0.00	\$21.89 to \$27.66
94-95	16/08/2013	34,473	34,473	\$18.93	\$24.83 to \$25.40
97-99	16/08/2013	9,852	9,852	\$0.00	\$24.83 to \$25.02
103-104	15/08/2014	63,772	63,772	\$17.72	\$24.30 to \$25.02
105-115	15/08/2014	75,255	75,255	\$0.00	\$21.89 to \$27.66
117-118	27/11/2014	10,623	10,623	\$15.58	\$26.72
119-125	27/11/2014	3,164	3,164	\$0.00	\$26.72
131	14/08/2015	55,820	55,820	\$0.00	\$21.89 to \$27.66
137	18/12/2015	746	746	\$0.00	\$27.66
		<u>435,289</u>	<u>435,289</u>		

(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" on page 53. 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 first testing	Relevant Financial Year	Exercise Price \$	Expiry Date
Vested (time based service condition and performance hurdle achieved)						
140	2/05/2016	4%-8%	2/05/2019	2018	\$0.00	1/05/2022
Not vested (performance hurdle achieved but time based service condition not achieved)						
103-104	15/08/2014	5%-10%	15/08/2019	2019	\$17.72	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%	27/11/2019	2019	\$15.58	26/11/2020
123-124	27/11/2014	5%-10%	27/11/2019	2019	\$0.00	26/11/2020
129	14/08/2015	4%-8%	14/08/2019	2019	\$0.00	13/08/2021
135	5/11/2015	4%-8%	5/11/2019	2019	\$0.00	4/11/2021
146	22/08/2016	4%-8%	22/08/2019	2019	\$0.00	21/08/2022
Not vested (time based service condition and performance hurdle not achieved)						
130	14/08/2015	4%-8%	14/08/2020	2020	\$0.00	13/08/2021
136	5/11/2015	4%-8%	5/11/2020	2020	\$0.00	4/11/2021
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
147	22/08/2016	4%-8%	22/08/2020	2020	\$0.00	21/08/2022
148	22/08/2016	4%-8%	22/08/2021	2021	\$0.00	21/08/2022
158	18/04/2017	9%-15%	18/04/2020	2020	\$0.00	17/04/2023
159	18/04/2017	9%-15%	18/04/2021	2021	\$0.00	17/04/2023
163	29/08/2017	9%-15%	10/08/2020	2020	\$0.00	28/08/2022
164	29/08/2017	9%-15%	9/08/2021	2021	\$0.00	28/08/2022

- (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 remaining 30% 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.
- (iii) For options shown with a 9%-15% performance hurdle, 50% of the options vest where compound annual EPS growth is 9%, and where compound annual EPS growth is between 9% and 15% the remaining 50% of options vest on a linear basis.



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Board of Directors
JB Hi-Fi Limited
Podium Level, 60 City Road
Southbank VIC 3006

12 August 2019

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 2019, 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

Travis Simkin
Partner
Chartered Accountants

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of JB Hi-Fi Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated balance sheet as at 30 June 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Carrying value of The Good Guys cash generating unit</p> <p>Refer to Note 11 <i>Intangibles</i>.</p> <p>The carrying value of The Good Guys cash generating unit contains \$575.6 million of goodwill and \$241.3 million of indefinite useful life brand names, both of which are required to be assessed for impairment annually or where there is an indicator of impairment.</p> <p>As disclosed within Note 11 to the financial statements, management have assessed The Good Guys cash generating unit for impairment using a 'value in use' discounted cash flow model. The impairment assessment incorporated significant judgments and estimates, specifically concerning factors such as forecast cash flows, discounts rates and terminal growth rates.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • assessing the design and implementation of key controls relating to the preparation of the value-in-use model; • agreeing forecast cash flows to the latest Board approved budget and assessing the historical accuracy of management's forecasting; • with the assistance of our valuation specialists, we: <ul style="list-style-type: none"> • assessed the management's value-in-use methodology; • challenging key assumptions, including forecast growth rates by comparing them to historical results and economic forecasts; • evaluated the discount rate used by assessing the cost of capital for the cash generating unit by comparison to market data; • assessing the mathematical accuracy of the value-in-use model; and • assessed management's sensitivity analyses around key assumptions used in the valuation model. <p>We also assessed the appropriateness of the disclosures included in Note 11 to the financial statements.</p>
<p>AASB 16 Leases: Presentation and disclosure</p> <p>Refer to Note 29(e) <i>Significant accounting policies New accounting standards</i>.</p> <p>The Group is required to apply the requirements of AASB 16 Leases from 1 July 2019, being the start of the financial year ending 30 June 2020.</p> <p>As set out in Note 29(e), management has identified that the adoption of AASB 16 Leases will have a significant impact on the presentation of the Group's financial statements.</p> <p>The expected impact of adopting AASB 16 is reliant upon a number of key estimates and judgements as set out in Note 29(e). Additionally, there is risk that the lease data is incomplete or inaccurate.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • testing the completeness of the lease data captured by management by agreeing a sample of rent expense in the ledger to the lease data; • testing the accuracy of the lease data captured by management, on a sample basis, by agreeing it to the underlying lease documentation; • with the assistance of our treasury specialists, assessing the incremental borrowing rates used by management to calculate the lease liability; • evaluating the estimates and judgement applied by management in determining the lease period for each lease, including the probability of exercising options and the lease term assigned to leases in 'hold over'; and • recalculating the lease liability and right of use asset, on a sample basis, to test the mathematical accuracy of management's calculations. <p>We also assessed the appropriateness of the disclosures included in Note 29(e) to the financial statements.</p>

Other Information

The directors are responsible for the other information. The other information comprises the Governance, Environmental and Social Statements, Directors' Report, Operating and Financial Review and additional securities exchange information which we obtained prior to the date of this auditor's report. The other information also includes the Chairman and Chief Executive Officer Report, which is expected to be made available to us after that date (but does not include the financial report and our auditor's report thereon).

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Chairman and Chief Executive Officer Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Directors 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 preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 32 to 56 of the Directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of JB Hi-Fi Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Travis Simkin

Partner

Chartered Accountants

Melbourne

12 August 2019

DIRECTORS' DECLARATION

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 Corporations (Wholly-owned Companies) Instrument 2016/785. 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 22 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
Group Chief Executive Officer

Melbourne
12 August 2019

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STATEMENT OF PROFIT OR LOSS
for the financial year ended 30 June 2019

	Notes	Consolidated	
		2019 \$m	2018 \$m
Revenue		7,095.3	6,854.3
Cost of sales		(5,568.2)	(5,384.1)
Gross profit		1,527.1	1,470.2
Other income		2.4	1.1
Sales and marketing expenses		(731.0)	(695.1)
Occupancy expenses		(306.4)	(299.7)
Administration expenses		(44.5)	(48.2)
Other expenses		(74.0)	(77.2)
Finance costs	5	(14.3)	(16.6)
Profit before tax		359.3	334.5
Income tax expense	6	(109.5)	(101.3)
Profit for the year attributable to Owners of the Company		249.8	233.2
		<i>Cents</i>	<i>Cents</i>
Earnings per share			
Basic (cents per share)	3	217.44	203.09
Diluted (cents per share)	3	215.27	201.11

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the financial year ended 30 June 2019

	Consolidated	
	2019 \$m	2018 \$m
Profit for the year	249.8	233.2
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Changes in the fair value of cash flow hedges (net of tax)	(1.1)	1.9
Exchange differences on translation of foreign operations	1.4	(1.3)
Other comprehensive income for the year (net of tax)	0.3	0.6
Total comprehensive income for the year attributable to Owners of the Company	250.1	233.8

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

BALANCE SHEET
as at 30 June 2019

	Notes	Consolidated	
		2019 \$m	2018 \$m
ASSETS			
Current assets			
Cash and cash equivalents		119.2	72.0
Trade and other receivables	8	236.0	204.7
Inventories	7	886.7	891.1
Other current assets	9	34.6	42.7
Total current assets		1,276.5	1,210.5
Non-current assets			
Plant and equipment	10	191.5	198.0
Deferred tax assets	6	2.7	–
Intangible assets	11	1,037.3	1,037.3
Other non-current assets	9	40.8	45.9
Total non-current assets		1,272.3	1,281.2
Total assets		2,548.8	2,491.7
LIABILITIES			
Current liabilities			
Trade and other payables	12	656.9	665.3
Deferred revenue	13	163.2	150.5
Provisions	14	93.9	83.5
Other current liabilities	15	8.0	8.3
Current tax liabilities		5.1	9.6
Total current liabilities		927.1	917.2
Non-current liabilities			
Borrowings	17	439.1	469.4
Deferred revenue	13	90.1	103.7
Deferred tax liabilities	6	–	5.7
Provisions	14	15.2	12.5
Other non-current liabilities	15	33.2	35.6
Total non-current liabilities		577.6	626.9
Total liabilities		1,504.7	1,544.1
Net assets		1,044.1	947.6
EQUITY			
Contributed equity	18	434.8	441.7
Reserves	19	53.7	42.7
Retained earnings		555.6	463.2
Total equity		1,044.1	947.6

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

STATEMENT OF CHANGES IN EQUITY
for the financial year ended 30 June 2019

Consolidated	Notes	Contributed equity \$m	Equity settled benefits reserve \$m	Foreign currency translation reserve \$m	Hedging reserves \$m	Common control reserve \$m	Retained earnings \$m	Total equity \$m
Balance at 1 July 2017		438.7	34.6	4.9	(0.2)	(6.1)	381.6	853.5
Profit for the year		-	-	-	-	-	233.2	233.2
Cash flow hedges (net of tax)		-	-	-	1.9	-	-	1.9
Exchange difference on translation of foreign operations		-	-	(1.3)	-	-	-	(1.3)
Total comprehensive income for the year		-	-	(1.3)	1.9	-	233.2	233.8
Issue of shares under share option plans	18	3.0	-	-	-	-	-	3.0
Dividends provided for or paid	4	-	-	-	-	-	(151.6)	(151.6)
Share-based payments - expense		-	7.8	-	-	-	-	7.8
Share-based payments - income tax		-	1.1	-	-	-	-	1.1
Balance at 30 June 2018		441.7	43.5	3.6	1.7	(6.1)	463.2	947.6
Balance at 1 July 2018		441.7	43.5	3.6	1.7	(6.1)	463.2	947.6
Profit for the year		-	-	-	-	-	249.8	249.8
Cash flow hedges (net of tax)		-	-	-	(1.1)	-	-	(1.1)
Exchange difference on translation of foreign operations		-	-	1.4	-	-	-	1.4
Total comprehensive income for the year		-	-	1.4	(1.1)	-	249.8	250.1
Issue of shares under share option plans	18	1.9	-	-	-	-	-	1.9
Dividends provided for or paid	4	-	-	-	-	-	(157.4)	(157.4)
Acquisition of shares by employee share trust	18	(8.8)	-	-	-	-	-	(8.8)
Share-based payments - expense		-	10.2	-	-	-	-	10.2
Share-based payments - income tax		-	0.5	-	-	-	-	0.5
Balance at 30 June 2019		434.8	54.2	5.0	0.6	(6.1)	555.6	1,044.1

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

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STATEMENT OF CASH FLOWS
for the financial year ended 30 June 2019

	Notes	Consolidated	
		2019 \$m	2018 \$m
Cash flows from operating activities			
Receipts from customers		7,804.9	7,551.9
Payments to suppliers and employees		(7,373.8)	(7,130.5)
Interest received		0.7	0.5
Interest and other finance costs paid		(13.8)	(15.0)
Income taxes paid		(116.4)	(114.8)
Net cash inflow from operating activities	16	301.6	292.1
Cash flows from investing activities			
Payments for plant and equipment	10	(59.3)	(54.4)
Proceeds from sale of plant and equipment		0.2	0.4
Net cash (outflow) from investing activities		(59.1)	(54.0)
Cash flows from financing activities			
Proceeds from issues of shares	18	1.9	3.0
Payments for shares acquired by the employee share trust	18	(8.8)	–
Repayment of borrowings		(30.5)	(89.7)
Payments for debt issue costs		(0.6)	(0.8)
Dividends paid to owners of the Company	4	(157.4)	(151.6)
Net cash (outflow) from financing activities		(195.4)	(239.1)
Net increase (decrease) in cash and cash equivalents		47.1	(1.0)
Cash and cash equivalents at the beginning of the financial year		72.0	72.8
Effects of exchange rate changes on cash and cash equivalents		0.1	0.2
Cash and cash equivalents at end of year		119.2	72.0

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2019

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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 controlled entities 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 which are 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 Podium Level, 60 City Road, Southbank, Victoria.

The financial statements were authorised for issue by the directors on 12 August 2019.

(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 hundred thousand dollars, unless otherwise stated.

(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
Impairment of goodwill and other intangible assets	11

GROUP PERFORMANCE

2 SEGMENT INFORMATION

(a) Description of segments

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

The Group Chief Executive Officer considers the business primarily from a brand and geographic perspective. On this basis, management has identified three reportable segments, JB Hi-Fi Australia (JB Aust), JB Hi-Fi New Zealand (JB NZ) and The Good Guys (TGG). The Group Chief Executive Officer monitors the performance of these three segments separately. The Group does not operate any other brand or in any other geographic segment.

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

The segment information provided to the Group Chief Executive Officer for the reportable segments for the year ended 30 June 2019 is as follows:

	<i>JB Aust \$m</i>	<i>JB NZ \$m</i>	<i>TGG \$m</i>	<i>Total \$m</i>
2019				
Revenue from external customers	4,726.0	221.4	2,147.9	7,095.3
EBITDA	342.3	1.3	85.5	429.1
Total segment assets	1,224.9	50.2	1,326.0	2,601.1
Additions to plant and equipment	30.7	0.3	28.3	59.3
Depreciation and impairment	40.6	3.0	12.6	56.2
Total segment liabilities	1,058.5	15.7	482.8	1,557.0
2018				
Revenue from external customers	4,539.7	213.3	2,101.3	6,854.3
EBITDA	333.6	0.8	77.3	411.7
Total segment assets	1,152.5	51.6	1,346.4	2,550.5
Additions to plant and equipment	30.9	1.2	22.3	54.4
Depreciation and impairment	41.3	3.4	16.4	61.1
Total segment liabilities	1,033.2	17.1	552.6	1,602.9

(i) EBITDA

The Group 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, amortisation, impairment, and non-operating intercompany charges.

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

	Consolidated	
	<i>2019 \$m</i>	<i>2018 \$m</i>
EBITDA	429.1	411.7
Interest revenue	0.7	0.5
Finance costs	(14.3)	(16.6)
Depreciation and impairment	(56.2)	(61.1)
Profit before income tax from continuing operations	359.3	334.5

2 SEGMENT INFORMATION (continued)

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

(ii) Segment assets and liabilities

The amounts provided to the Group 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	
	2019 \$m	2018 \$m
Segment assets	2,601.1	2,550.5
Intersegment eliminations	(52.3)	(58.8)
Total assets as per the balance sheet	2,548.8	2,491.7
Segment liabilities	1,557.0	1,602.9
Intersegment eliminations	(52.3)	(58.8)
Total liabilities as per the balance sheet	1,504.7	1,544.1

(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, heating and cooling products, small appliances, kitchen accessories and information technology and consulting services. The Group's revenue is primarily generated on a point in time basis. The amount of revenue recognised by the Group on an 'over time' basis is not material in the context of the Group's total revenue.

	Consolidated	
	2019 Cents	2018 Cents
3 EARNINGS PER SHARE		
Basic (cents per share)	217.44	203.09
Diluted (cents per share)	215.27	201.11

	Consolidated	
	2019 \$m	2018 \$m
(a) Reconciliation of earnings used in calculating earnings per share		
<i>Basic earnings per share</i>		
Profit for the year attributable to owners of the Company	249.8	233.2
<i>Diluted earnings per share</i>		
Profit for the year attributable to owners of the Company	249.8	233.2

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2019

	Consolidated	
	2019 Number m	2018 Number m
3 EARNINGS PER SHARE (continued)		
(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	114.9	114.8
Adjustments for calculation of diluted earnings per share:		
Options	1.2	1.1
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	116.1	115.9

(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 (1,159,578 options are considered dilutive (2018: 1,131,023), 53,746 are considered anti-dilutive (2018: 130,453)). The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 27.

	2019		2018	
	<i>Cents per share</i>	<i>\$m</i>	<i>Cents per share</i>	<i>\$m</i>
4 DIVIDENDS				
Recognised amounts				
Final Dividend - previous financial year	46.00	52.8	46.00	52.8
Interim Dividend - current financial year	91.00	104.6	86.00	98.8
	137.00	157.4	132.00	151.6
Unrecognised amounts				
Final Dividend - current financial year	51.00	58.6	46.00	52.8

In respect of the financial year ended 30 June 2019, the directors have recommended the payment of a final dividend of 51.0 cents per share. The record date is 23 August 2019.

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

	Consolidated	
	2019 \$m	2018 \$m
(a) Franking account balance		
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2018: 30.0%)	312.7	270.6

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 \$25.1 million (2018: \$22.6 million).

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		Consolidated	
		2019 \$m	2018 \$m
5	EXPENSES		
	Profit before income tax includes the following specific expenses:		
	<i>Finance costs</i>		
	Interest on loans	13.3	15.0
	Fair value loss on interest swaps designated as cash flow hedges - transfer from equity	0.3	0.5
	Other interest expense	0.7	1.1
		14.3	16.6
	<i>Rental expense relating to operating leases</i>		
	Minimum lease payments	203.6	193.1
	<i>Employee benefits expenses</i>		
	Share-based payments - expense	10.2	7.8
	Defined contribution superannuation expense	57.4	53.9
	Other employee benefits	661.6	634.0
		729.2	695.7

		Consolidated	
		2019 \$m	2018 \$m
6	TAXATION		
(a)	Income tax expense		
	Current tax	117.9	111.7
	Deferred tax	(8.4)	(10.4)
		109.5	101.3
(b)	Numerical reconciliation of income tax expense to prima facie tax payable		
	Profit from continuing operations before income tax expense	359.3	334.5
	Tax at the Australian tax rate of 30.0% (2018: 30.0%)	107.8	100.4
	Effect of expenses that are not deductible in determining taxable profit	3.2	2.3
	Effect of different tax rates of subsidiaries operating in other jurisdictions	0.1	0.1
	Effect of other deductibles in determining taxable profit	(1.6)	(1.4)
	Other	-	(0.1)
	Tax expense	109.5	101.3
(c)	Amounts recognised directly in equity		
	The following current and deferred amounts were charged directly to equity during the period:		
	<i>Current tax</i>		
	Tax effect of employee share options in reserves	(0.5)	(1.1)
	<i>Deferred tax</i>		
	Tax effect of hedge gains/(loss) in reserves	-	0.8
		(0.5)	(0.3)

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2019

	Consolidated	
	2019 \$m	2018 \$m
6 TAXATION (continued)		
(d) Deferred tax		
The balance comprises temporary differences attributable to:		
<i>Deferred tax assets</i>		
Provisions	42.6	35.6
Inventories	9.6	8.1
Deferred revenue	40.7	45.0
Other	13.6	10.7
	106.5	99.4
<i>Deferred tax liabilities</i>		
Brand names	(85.2)	(85.2)
Prepayments	(18.6)	(19.9)
	(103.8)	(105.1)
Net deferred tax assets/(liabilities)	2.7	(5.7)

All movements in the above temporary differences have been charged to income.

(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.

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6 TAXATION (continued)

(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 22.

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	
		2019 \$m	2018 \$m
7	INVENTORIES		
	Finished goods	886.7	891.1

(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	
		2019 \$m	2018 \$m
8	TRADE AND OTHER RECEIVABLES		
	Trade receivables	66.3	56.6
	Allowance for expected credit losses	(1.4)	(1.1)
		64.9	55.5
	Non-trade receivables	171.1	149.2
		236.0	204.7

(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 expected credit losses using a provision matrix based on historical credit loss rates. Credit insurance is carried for most commercial debtor accounts. Trade receivables are recognised at amortised cost less allowance for expected credit losses.

Non-trade receivables

Non-trade receivables principally represent rebates receivable from suppliers for purchases of inventories and contributions from landlords. Rebates associated with the purchases of inventory are recorded as a reduction in the cost of inventory on hand until the inventory is sold. No amount is considered irrecoverable from suppliers and therefore no allowance has been made.

		Consolidated	
		2019 \$m	2018 \$m
(b)	Ageing of trade receivables (net of allowance for expected credit losses)		
	Not past due	61.0	50.8
	Past due but not impaired:		
	0 - 30 days	2.0	3.7
	31 - 60 days	1.9	1.0
	61 - 90 days	-	-
	91+ days	-	-
		64.9	55.5

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Consolidated

	2019 \$m	2018 \$m
8 TRADE AND OTHER RECEIVABLES (continued)		
(c) Movements in allowance for expected credit losses		
Balance at the beginning of the year	1.1	0.7
Remeasurement of loss allowance	0.4	0.5
Receivables written off during the year as uncollectable	(0.1)	(0.1)
	1.4	1.1

(d) Collectability of trade receivables

An allowance has been made for expected credit losses (ECL) calculated by using a simplified provision matrix that is based on historical credit loss rates. The historical loss rates are adjusted to reflect current and forward-looking information specific to the economic environment and affecting customers' ability to settle their receivables. Trade receivables are written off against the allowance account where there is no reasonable expectation of recovery.

The amount of the ECL is recognised in profit or loss within other expenses. Subsequent recoveries of amounts previously written off are credited against the same line item.

Consolidated

	2019 \$m	2018 \$m
9 OTHER ASSETS		
<i>Current</i>		
Prepayments	30.0	31.8
Other	4.6	10.9
	34.6	42.7
<i>Non-current</i>		
Prepayments	40.8	45.9
	40.8	45.9

Prepayments includes payments made in relation to The Goods Guys Gold Service Extras program and general prepaid expenses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2019

	<i>Plant and equipment \$m</i>	<i>Leasehold improvements \$m</i>	<i>Total \$m</i>
10 PLANT AND EQUIPMENT			
At 1 July 2017			
Cost	310.6	173.9	484.5
Accumulated depreciation and impairment	(162.4)	(113.9)	(276.3)
Net book amount	148.2	60.0	208.2
Year ended 30 June 2018			
Opening net book amount	148.2	60.0	208.2
Exchange differences	(0.4)	(0.2)	(0.6)
Additions	35.9	18.5	54.4
Disposals	(2.2)	(0.7)	(2.9)
Depreciation charge	(40.8)	(19.6)	(60.4)
Impairment charge	(0.6)	(0.1)	(0.7)
Closing net book amount	140.1	57.9	198.0
At 30 June 2018			
Cost	336.4	188.1	524.5
Accumulated depreciation and impairment	(196.3)	(130.2)	(326.5)
Net book amount	140.1	57.9	198.0
Year ended 30 June 2019			
Opening net book amount	140.1	57.9	198.0
Exchange differences	0.4	0.1	0.5
Additions	39.2	20.1	59.3
Disposals	(9.8)	(0.3)	(10.1)
Depreciation charge	(36.1)	(18.6)	(54.7)
Impairment charge	(1.5)	–	(1.5)
Closing net book amount	132.3	59.2	191.5
At 30 June 2019			
Cost	354.1	201.0	555.1
Accumulated depreciation and impairment	(221.8)	(141.8)	(363.6)
Net book amount	132.3	59.2	191.5

(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 and leasehold improvements are 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 other expenses in the profit or loss.

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	<i>Goodwill</i> \$m	<i>Brand names</i> \$m	<i>Location premiums</i> \$m	<i>Rights to profit share</i> \$m	<i>Total</i> \$m
11 INTANGIBLE ASSETS					
Year ended 30 June 2018					
Opening net book amount	747.0	284.4	2.4	3.5	1,037.3
Impairment charge	-	-	-	-	-
Closing net book amount	747.0	284.4	2.4	3.5	1,037.3
Year ended 30 June 2019					
Opening net book amount	747.0	284.4	2.4	3.5	1,037.3
Impairment charge	-	-	-	-	-
Closing net book amount	747.0	284.4	2.4	3.5	1,037.3

(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. 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 and brand names is allocated to the following cash-generating units (CGUs) or groups of CGUs for impairment testing purposes:

	Consolidated	
	2019 \$m	2018 \$m
Goodwill		
The Good Guys	575.6	575.6
JB Hi-Fi Australia	163.3	163.3
Impact Records (store acquisition)	1.7	1.7
JB Solutions division (Commercial)	6.4	6.4
JB Hi-Fi New Zealand	-	-
	747.0	747.0

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2019

	Consolidated	
	2019 \$m	2018 \$m
11 INTANGIBLE ASSETS (continued)		
(b) Impairment testing (continued)		
Brand names		
The Good Guys	241.3	241.3
JB Hi-Fi Australia	43.1	43.1
	284.4	284.4

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 the Board. The cash flows beyond the budget period have been extrapolated using a steady 2.5% long term growth rate (2018: 2.5%) which is consistent with the projected long term average growth rate for the consumer products market. The discount rate used in the calculations is 10.0% for JB Hi-Fi Australia, Impact Records and JB Solutions division (2018: 10.0%) and 10.0% for The Good Guys (2018: 10.5%).

The key assumptions used in the value in use calculations include sales growth, gross margin, cost of doing business (CODB) and the discount rate. The assumptions are based on past experience and the Company's forecast operating and financial performance for each CGU (or group of CGUs) taking into account current market and economic conditions, risks, uncertainties and opportunities for improvement for each CGU (or groups of CGUs). The discount rate is derived from the Group's weighted average cost of capital, adjusted for varying risk profiles.

The Group has concluded that no impairment is required based on expected performance and current market and economic conditions. A material change in market and economic conditions may increase the risk of impairment for The Good Guys in future periods, however there is no reasonably possible change in key assumptions that could result in an impairment for JB Hi-Fi Australia.

	Consolidated	
	2019 \$m	2018 \$m
12 TRADE AND OTHER PAYABLES		
Trade payables	570.0	582.0
Goods and services tax (GST) payable	47.8	37.3
Other creditors and accruals	39.1	46.0
	656.9	665.3

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	
	2019 \$m	2018 \$m
13 DEFERRED REVENUE		
Current		
Deferred revenue	163.2	150.5
	163.2	150.5
Non-current		
Deferred revenue	90.1	103.7
	90.1	103.7

Deferred revenue relates to unfulfilled services to be performed under The Good Guys Gold Service Extras program, unredeemed gift cards and customer deposits. Refer to note 29(a) for revenue recognition accounting policy.

Management expects that 83% of Non-Current Deferred Revenue will be recognised in the 2021 & 2022 financial years and the remaining 17% recognised in the following 3 years.

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	Consolidated	
	2019 \$m	2018 \$m
14 PROVISIONS		
Current		
Employee benefits	86.5	78.2
Lease provision	7.4	5.3
	93.9	83.5
Non-current		
Employee benefits	7.5	7.3
Lease provision	7.7	5.2
	15.2	12.5

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2019

	Consolidated	
	2019 \$m	2018 \$m
15 OTHER LIABILITIES		
Current		
Lease accrual	2.6	2.8
Lease incentive	5.2	5.2
Other financial liabilities	0.2	0.3
	8.0	8.3
Non-current		
Lease accrual	15.2	15.0
Lease incentive	18.0	20.6
	33.2	35.6

(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.

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CAPITAL STRUCTURE AND RISK MANAGEMENT

16 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 and trade finance facilities.

(a) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled as follows:

	Consolidated	
	2019 \$m	2018 \$m
Cash	136.4	72.0
Trade finance facility	(17.2)	–
Cash and cash equivalents	119.2	72.0
(b) Reconciliation of net cash inflow from operating activities to profit		
Profit for the year	249.8	233.2
Depreciation and amortisation	54.7	60.4
Impairment of plant and equipment	1.5	0.7
Non-cash employee benefits expense - share-based payments	10.2	7.8
Net loss on disposal of non-current assets	9.9	2.5
Fair value adjustment to derivatives	(1.1)	1.9
Change in operating assets and liabilities net of effects from acquisition of businesses:		
(Increase) decrease in inventories	5.9	(33.0)
(Increase) decrease in current receivables	(28.9)	(10.7)
(Increase) decrease in other current assets	13.1	(0.4)
(Increase) decrease in deferred tax liabilities	(8.4)	(10.4)
(Decrease) increase in current payables	(11.1)	22.4
(Decrease) increase in current provisions	12.3	7.3
(Decrease) increase in other current liabilities	(0.2)	(0.7)
(Decrease) increase in deferred revenue	(0.9)	12.8
(Decrease) increase in non-current provisions	2.7	0.7
(Decrease) increase in other non-current liabilities	(4.2)	0.7
(Decrease) increase in current tax liabilities	(3.7)	(3.1)
Net cash inflow from operating activities	301.6	292.1

	Consolidated	
	2019 \$m	2018 \$m
17 BORROWINGS		
Unsecured non-current		
Bank loans	439.1	469.4
Reconciliation of liabilities arising from financing activities		
Opening borrowings	469.4	558.8
Repayment of borrowings	(30.5)	(89.7)
Debt issue costs paid	(0.6)	(0.8)
Amortisation of debt issue costs	0.8	1.1
	439.1	469.4

17 BORROWINGS (continued)

In June 2019, the Group restructured its multi-tranche term debt facilities, resulting in a reduction in its multi-tranche term debt facilities by \$110.0 million to \$440.0 million. In conjunction with the restructure of the term debt facilities, the Group also increased its trade finance facility by \$110.0 million to \$140.0 million and reduced its overdraft facility by \$30 million to \$59.6 million. Refer to note 20(b) for further details on the Group's financing facilities.

In line with the Group's financial risk management policy, the Group has utilised an interest rate swap and interest rate cap over approximately 50% of the Group's borrowings to mitigate the risk of changing interest rates on the variable rate debt held.

(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	
	2019 Shares	2018 Shares	2019 \$m	2018 \$m
18 CONTRIBUTED EQUITY				
(a) Share capital				
Ordinary shares - fully paid	114,883,372	114,883,372	434.8	441.7

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	\$m
1 July 2017	Opening balance	114,421,403	438.7
	Issue of shares under share option and deferred STI plans	461,969	3.0
30 June 2018	Closing balance	114,883,372	441.7
1 July 2018	Opening balance	114,883,372	441.7
	Shares acquired by employee share trust	(354,617)	(8.8)
	Allocation of shares under share option and deferred STI plans	354,617	1.9
30 June 2019	Closing balance	114,883,372	434.8

(c) Share options

In accordance with the provisions of the Company's share option plans, as at 30 June 2019, executives and non-executive management have options over 1,252,931 ordinary shares (of which 3,197 were vested), in aggregate, with various expiry dates.

As at 30 June 2018, executives and non-executive management had options over 1,333,919 ordinary shares (which were all 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.

18 CONTRIBUTED EQUITY (continued)

(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 the gearing ratio as term debt excluding capitalised borrowing costs, plus bank overdrafts, divided by earnings before interest, taxation, depreciation, amortisation and impairment (EBITDA).

The Board has adopted a policy of monitoring the dividend payout ratio and targeting a payout ratio of 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.

The Group's return on invested capital and gearing ratios as at 30 June 2019 and 30 June 2018 were as follows:

	Consolidated	
	2019 \$m	2018 \$m
Return on invested capital		
Profit before tax	359.3	334.5
Net finance costs	13.6	16.1
EBIT	372.9	350.6
Borrowings	439.1	469.4
Cash and cash equivalents	(119.2)	(72.0)
Net debt	319.9	397.4
Total equity	1,044.1	947.6
Invested capital	1,364.0	1,345.0
Return on invested capital	27.3%	26.1%
Gearing		
Term debt	440.0	470.3
EBIT	372.9	350.6
Depreciation and impairment	56.2	61.1
EBITDA	429.1	411.7
Gearing	1.03	1.14

	Consolidated	
	2019 \$m	2018 \$m
19 RESERVES		
Equity-settled benefits	54.2	43.5
Common control reserve	(6.1)	(6.1)
Hedging reserves	0.6	1.7
Foreign currency translation reserve	5.0	3.6
	53.7	42.7

19 RESERVES (continued)

(a) Nature and purpose of reserves

(i) Equity-settled benefits

The equity-settled benefits reserve arises on the grant of share options and restricted shares to executives and non-executive management under the Company's share option plans and variable reward plan. Further information about share based payments is in note 27 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, caps and forward foreign exchange contracts as described in note 29(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, caps and forward foreign exchange contracts 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 29(c).

20 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.

The Group is exposed to some foreign currency risk as The Good Guys purchase some private label product denominated in foreign currencies. In order to minimise this risk, the Group holds forward foreign exchange contracts.

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

	Consolidated	
	2019 \$m	2018 \$m
Financial assets		
Cash and cash equivalents	119.2	72.0
Trade and other receivables	236.0	204.7
Forward foreign exchange contracts	–	1.0
	355.2	277.7
Financial liabilities		
Trade and other payables	656.9	665.3
Bank loans	439.1	469.4
Interest rate swaps and caps (net settled)	0.2	0.3
	1,096.2	1,135.0

20 FINANCIAL RISK MANAGEMENT (continued)

(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 further 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.

The Group undertakes some transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments (normally USD or EUR) for future purchases.

The following table details the forward foreign exchange contracts outstanding at the end of the reporting period:

	30 June 2019			30 June 2018		
	Weighted average exchange rate	Foreign currency m	Notional value A\$m	Weighted average exchange rate	Foreign currency m	Notional value A\$m
Consolidated						
Forward exchange contracts						
- buy USD (cash flow hedges)	-	-	-	0.78	14.1	18.1
- buy Euro (cash flow hedges)	-	-	-	0.64	2.4	3.8

(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 and cap 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 and interest rate cap contracts

Under interest rate swap and cap 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 and caps 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.

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

	30 June 2019		30 June 2018	
	Weighted average interest rate %	Balance \$m	Weighted average interest rate %	Balance \$m
Consolidated				
Bank loans	2.85%	440.0	3.01%	470.3
Interest rate swaps and caps (notional principal amount)	3.18%	203.4	3.15%	228.4
Net exposure to cash flow interest rate risk		643.4		698.7

The interest rate swaps and caps settle on a monthly basis and the Group settles the difference on a net basis. The interest rate swap and cap 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 swaps, caps 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2019

20 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk (continued)

Summarised sensitivity analysis

The carrying value of interest rate swap and caps was \$0.2m (2018: \$0.3m) and borrowings was \$439.1m (2018: \$469.4m). Using a sensitivity of 50 basis points results in an immaterial impact on the carrying values.

(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.

Financing arrangements

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

	Consolidated	
	2019 \$m	2018 \$m
Unsecured bank overdraft facility:		
amount used	–	16.7
amount unused	59.6	72.5
	59.6	89.2
Unsecured trade finance facility:		
amount used	17.2	–
amount unused	122.8	30.0
	140.0	30.0
Unsecured indemnity guarantees:		
amount used	3.7	4.9
amount unused	2.6	4.0
	6.3	8.9
Unsecured bank loan facilities (term debt):		
amount used ⁽ⁱ⁾	440.0	470.3
amount unused	–	79.7
	440.0	550.0
Headroom in total borrowing facilities (excluding security indemnity guarantees)	182.4	182.2

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

20 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

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.

	<i>Less than 6 months \$m</i>	<i>6 - 12 months \$m</i>	<i>Between 1 and 2 years \$m</i>	<i>Between 2 and 5 years \$m</i>	<i>Over 5 years \$m</i>	<i>Total \$m</i>	<i>Weighted average effective interest rate %</i>
2019							
Financial liabilities							
Trade and other payables	656.9	–	–	–	–	656.9	–
Bank loans	6.3	6.3	12.5	442.7	–	467.8	2.85%
Interest rate swaps and caps (net settled)	0.2	–	–	–	–	0.2	3.18%
	663.4	6.3	12.5	442.7	–	1,124.9	

	<i>Less than 6 months \$m</i>	<i>6 - 12 months \$m</i>	<i>Between 1 and 2 years \$m</i>	<i>Between 2 and 5 years \$m</i>	<i>Over 5 years \$m</i>	<i>Total \$m</i>	<i>Weighted average effective interest rate %</i>
2018							
Financial liabilities							
Trade and other payables	665.3	–	–	–	–	665.3	–
Bank loans	7.1	7.1	205.4	281.6	–	501.2	3.01%
Interest rate swaps and caps (net settled)	0.1	0.2	–	–	–	0.3	3.15%
	672.5	7.3	205.4	281.6	–	1,166.8	

(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.

20 FINANCIAL RISK MANAGEMENT (continued)

(d) Fair value of financial instruments

The only financial assets or financial liabilities carried at fair value in the current financial year are interest rate swaps and interest rate caps.

All these instruments are considered to be Level 2 financial instruments because, unlike Level 1 financial instruments, their 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).

The interest rate swaps and caps fair value was obtained from third party valuations derived from discounted cash flow forecasts of interest rates from observable yield curves at the end of the reporting period and contract interest rates.

The foreign currency forward contracts fair value presented in the prior year was obtained from third party valuations derived from discounted cash flow forecasts of forward exchange rates at the end of the reporting period and contract exchange rates.

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the financial year.

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

21 COMMITMENTS

(a) Non-cancellable operating leases

The Group has entered into operating lease agreements in relation to its stores and some minor operating leases in relation to plant and equipment. Store leases 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	
	<i>2019</i> <i>\$m</i>	<i>2018</i> <i>\$m</i>
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	153.4	157.5
Later than one year but not later than five years	407.6	405.3
Later than five years	118.8	121.6
	679.8	684.4

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GROUP STRUCTURE

22 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	Ownership interest	
		2019 %	2018 %
Parent entity			
JB Hi-Fi Limited ^	Australia	-	-
Subsidiaries			
JB Hi-Fi Group Pty Ltd ^	Australia	100	100
Clive Anthonys Pty Ltd	Australia	100	100
JB Hi-Fi (A) Pty Ltd ^	Australia	100	100
Rocket Replacements Pty Ltd	Australia	100	100
JB Hi-Fi Education Solutions Pty Ltd ^	Australia	100	100
JB Hi-Fi Group (NZ) Limited	New Zealand	100	100
JB Hi-Fi NZ Limited	New Zealand	100	100
JB Hi-Fi (B) Pty Ltd ^	Australia	100	100
The Muir Electrical Company Pty Ltd ^	Australia	100	100
The Muir Electrical Service Co Pty Ltd ^	Australia	100	100
The Good Guys Discount Warehouses (Australia) Pty Ltd ^	Australia	100	100
Muir Group Employee Share Plan Pty Ltd ^	Australia	100	100
The Muir Finance Company Pty Ltd ^	Australia	100	100
M.E.W. (Australia) Pty Ltd ^	Australia	100	100
The Muir Electrical Company Pty Ltd as Trustee of the Muir Investment Unit Trust ^	Australia	100	100
The Good Guys Discount Warehouses (Australia) Pty Ltd as Trustee of the various store Trusts	Australia	100	100
Home Services Network Pty Ltd ^	Australia	100	100

Notes:

- (i) JB Hi-Fi Limited is the head entity within the tax consolidated group.
- (ii) All Australian entities are members of the tax consolidated group.
- (iii) Entities identified with '^' are party to a deed of cross guarantee.
- (iv) The Company has a trust to administer the Company's share options plans and variable reward plan. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Company.

(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.

22 SUBSIDIARIES (continued)

(a) Principles of consolidation (continued)

(ii) 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).

23 DEED OF CROSS GUARANTEE

The subsidiaries identified with a ‘^’ in note 22 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 ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

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:

	2019 \$m	2018 \$m
(a) Consolidated statement of profit or loss, statement of profit or loss and other comprehensive income		
Statement of profit or loss		
Revenue	5,083.9	4,895.6
Cost of sales	(3,978.1)	(3,845.0)
Gross profit	1,105.8	1,050.6
Other income	118.7	114.2
Sales and marketing expenses	(543.6)	(503.2)
Occupancy expenses	(207.1)	(205.0)
Administration expenses	(35.4)	(34.0)
Finance costs	(14.2)	(16.4)
Other expenses	(63.4)	(68.9)
Profit before income tax	360.8	337.3
Income tax expense	(110.0)	(102.1)
Profit for the year	250.8	235.2
Statement of profit or loss and other comprehensive income		
Profit for the year	250.8	235.2
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges (net of tax)	(1.1)	1.9
Other comprehensive income for the year (net of tax)	(1.1)	1.9
Total comprehensive income for the year	249.7	237.1

	2019 \$m	2018 \$m
23 DEED OF CROSS GUARANTEE (continued)		
(b) Balance sheet		
Current assets		
Cash and cash equivalents	119.5	69.3
Trade and other receivables	396.7	295.9
Inventories	595.5	606.6
Other current assets	36.5	13.2
Total current assets	1,148.2	985.0
Non-current assets		
Plant and equipment	148.6	161.1
Deferred tax assets	71.3	63.5
Intangible assets	83.8	83.8
Investments in subsidiaries	911.7	911.7
Other non-current assets	213.5	173.0
Total non-current assets	1,428.9	1,393.1
Total assets	2,577.1	2,378.1
Current liabilities		
Trade and other payables	628.4	644.9
Deferred revenue	119.1	60.3
Current tax liabilities	5.1	9.6
Provisions	98.4	89.8
Other current liabilities	7.3	7.2
Other financial liabilities	0.3	-
Total current liabilities	858.6	811.8
Non-current liabilities		
Borrowings	439.1	462.1
Deferred revenue	90.2	6.2
Provisions	14.2	12.4
Other non-current liabilities	30.0	32.5
Total non-current liabilities	573.5	513.2
Total liabilities	1,432.1	1,325.0
Net assets	1,145.0	1,053.1
Equity		
Contributed equity	454.9	453.0
Reserves	41.2	44.6
Retained earnings	648.9	555.5
Total equity	1,145.0	1,053.1

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2019

	Parent Entity	
	2019 \$m	2018 \$m
24 PARENT ENTITY		
Assets		
Non-current assets	526.4	517.7
Total assets	526.4	517.7
Liabilities		
Current liabilities	8.9	14.1
Non-current liabilities	0.1	–
Total liabilities	9.0	14.1
Shareholders' equity		
Contributed equity	434.8	441.7
Reserves	54.2	43.5
Retained earnings	28.4	18.4
	517.4	503.6
Profit for the year	167.4	161.8
Total comprehensive income	167.4	161.8

25 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 22.

(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.

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OTHER DISCLOSURES

	Consolidated	
	2019 \$'000	2018 \$'000
26 KEY MANAGEMENT PERSONNEL DISCLOSURES		
The aggregate compensation of the key management personnel of the Group is set out below:		
Short-term employee benefits	8,310	8,974
Post-employment benefits	239	230
Share-based payments expense	4,230	2,943
	12,779	12,147

Detailed remuneration disclosures are provided in the remuneration report on pages 32 to 56.

27 SHARE-BASED PAYMENTS

(a) Group share option plans

The Group has 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 issue prices or to acquire shares at a zero exercise price.

Details of the features of outstanding share options are provided in the remuneration report on pages 53 to 56.

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
2019					
Outstanding Share Options with an exercise price	182,199	–	(107,798)	74,401	–
Outstanding Zero Exercise Price Options	1,151,720	275,588	(248,778)	1,178,530	3,197
	1,333,919	275,588	(356,576)	1,252,931	3,197
Weighted average exercise price of those with an exercise price	\$17.69	–	\$17.88	\$17.41	–

	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
2018					
Outstanding Share Options with an exercise price	404,054	–	(221,855)	182,199	–
Outstanding Zero Exercise Price Options	955,145	464,840	(268,265)	1,151,720	–
	1,359,199	464,840	(490,120)	1,333,919	–
Weighted average exercise price of those with an exercise price	\$15.53	–	\$13.75	\$17.69	–

The weighted average remaining contractual life of share options outstanding at the end of the period was 1,112 days (2018: 1,222 days).

27 SHARE-BASED PAYMENTS (continued)

(a) Group share option plans (continued)

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 2019 was \$21.97 (2018: \$21.48). 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 2019 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 32 to 56.

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.

b) Variable reward plan

In the 2019 financial year, the Group introduced a Variable Reward Plan (VRP) for Group Executives which replaces their previous short term and long term incentives. Under the VRP, performance is assessed at the end of each financial year against a scorecard of robust measures and awards under the VRP are delivered:

- 25% in cash at the end of the one-year performance period; and
- 75% in restricted shares, to be released progressively in equal tranches over years 2, 3 and 4.

There are also certain non-Group executives who receive a VRP in addition to their existing short term and long term incentives, however the whole amount is delivered in restricted shares that are released progressively in equal tranches over years 2, 3 and 4. Further details on the VRP are set out in the remuneration report on page 35.

The component of the VRP that is paid in cash is treated as a bonus and is expensed to the profit and loss in the period the bonus is earned. The component of the VRP that is delivered in shares is expensed on a straight line basis over the restriction period of each tranche, with the expense recorded as part of the share based payments expense and a corresponding increase in equity.

28 REMUNERATION OF AUDITORS

Audit and other services

Audit and review of group financial statements	625	607
Audit and review of subsidiary financial statements	33	44
Audit of accounting for the acquisition of The Good Guys	-	10
Total remuneration for audit and other services	658	661

Consolidated	
2019 \$'000	2018 \$'000
625	607
33	44
-	10
658	661

The auditor of the Group is Deloitte Touche Tohmatsu.

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29 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 associated with the sale of goods is recognised when the performance obligation of the sale has been fulfilled and control of the goods has transferred to the customer, which occurs at the point of sale when the goods are collected/delivered.

Gift cards and store credits are considered a prepayment for goods and services to be delivered in the future. The Group has an obligation to transfer the goods or services in the future - creating a performance obligation. The Group recognises deferred revenue for the amount of the prepayment and recognises revenue when the customer redeems the gift card or store credit and the Group fulfils the performance obligation related to the transaction or likelihood of the gift card being redeemed by the customer is deemed remote.

In recognising revenue from the sale of goods, the Group considers its historical experience with sales returns to determine if its 'highly probable' that a significant reversal of revenue will arise in the future.

(ii) Commissions

The Group acts as an agent in the sale of various products and services to customers such as telecommunication contracts. Commissions associated with agency sales are recognised on a point in time basis when all performance obligations have been completed to entitle the Group to the commission.

(iii) Rendering of services

The Group generates revenue from the provision of various services including installation, customer delivery, IT services and extended care and customer support services.

Revenue relating to installation, customer delivery and IT services is principally recognised on a point in time basis, which occurs upon completion of the service given the short time period over which the services are provided.

Revenue relating to extended care and customer support services is recognised over the period of cover where the Group retains the responsibility for the performance obligations associated with the services and at point of sale when a third party assumes responsibility for the performance obligations associated with the services. Amounts collected for services not yet provided are recorded as deferred revenue in the balance sheet.

(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.

29 SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)**(b) Derivatives and hedging activities (continued)**

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 20. 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 the cash flow hedge reserve within 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'.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are 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.

29 SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign currency translation (continued)

(iii) Group companies (continued)

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.

(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 all of the following new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period:

(i) AASB 9 *Financial Instruments* and related amending Standards

The Group has adopted AASB 9 *Financial Instruments* from 1 July 2018 which replaces AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model for calculating the provision for doubtful debts (now termed the credit loss allowance), and new hedge accounting requirements.

Credit losses on trade receivables

The Group has elected to apply the simplified approach to measuring expected credit losses, using the lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. A provision matrix is then determined based on the historic credit loss rate for each group, adjusted for any material expected changes to the future credit risk for that group. The difference between the credit loss allowances calculated under AASB 9 compared to the incurred loss calculated under AASB 139 is not material to the Group.

Hedge accounting

In accordance with the transition provisions of AASB 9 for hedge accounting, the Group has applied the AASB 9 hedge accounting requirements prospectively from the date of initial application on 1 July 2018. There has been no change in the Groups transactions that are subject to hedge accounting from the adoption of AASB 9, being the interest rate swaps, caps and forward foreign currency exchange contracts. Accordingly, there has been no impact on the hedging reserve from the adoption of AASB 9.

(ii) AASB 15 *Revenue from Contracts with Customers* and related amending Standards

The Group has adopted AASB 15 *Revenue from Contracts with Customers* from 1 July 2018, which replaces AASB 118 *Revenue*, using the modified retrospective approach.

AASB 15 establishes a principles-based approach for revenue recognition whereby revenue is recognised when performance obligations are satisfied and the control of goods or services is transferred. The standard applies a five-step approach to the timing of revenue recognition and is applicable to all contracts with customers, except those in the scope of other standards, replacing the separate models for goods, services and construction contracts under the previous accounting standards.

29 SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) New accounting standards and interpretations (continued)

The major sources of the Group's revenue are from the sale of goods, commissions and rendering of services, which are each considered below.

Sale of goods

The adoption of AASB 15 has not impacted the timing of revenue recognition on the sale of goods, which continues to be recognised on a point in time basis.

In previous reporting periods, revenue from the sale of goods was recognised when the customer accepted the risks and rewards of ownership, which occurred at the point in sale or when the goods were collected/delivered. In applying AASB 15, revenue associated with the sale of goods is recognised when the performance obligation of the sale has been fulfilled and control of the goods has transferred to the customer, which continues to occur at the point of sale when the goods are collected/delivered.

Gift cards and store credits are considered a prepayment for goods and services to be delivered in the future. The Group has an obligation to transfer the goods or services in the future - creating a performance obligation. The Group recognises deferred revenue for the amount of the prepayment and recognises revenue when the customer redeems the gift card or store credit and the Group fulfils the performance obligation related to the transaction or likelihood of the gift card being redeemed by the customer is deemed remote.

In recognising revenue from the sale of goods, the Group considers its historical experience with sales returns to determine if its 'highly probable' that a significant reversal of revenue will arise in the future.

Commissions

The Group acts as an agent in the sale of various products and services to customers such as telecommunication contracts. Under AASB 15, commissions associated with agency sales are recognised on a point in time basis when all performance obligations have been completed to entitle the Group to the commission.

There has been no change in the point of revenue recognition for commissions arising from the adoption of AASB 15.

Rendering of services

The Group generates revenue from the provision of various services including installation, customer delivery, IT services and extended care and customer support services.

Under AASB 15, revenue relating to installation, customer delivery and IT services is principally recognised on a point in time basis, which occurs upon completion of the service given the short time period over which the services are provided.

Revenue relating to extended care and customer support services is recognised over the period of cover where the Group retains the responsibility for the performance obligations associated with the services and at point of sale when a third party assumes responsibility for the performance obligations associated with the services. Amounts collected for services not yet provided are recorded as deferred revenue in the balance sheet.

The adoption of AASB 15 has not impacted the timing revenue recognition for services revenue.

Timing of revenue recognition

As described above, the Group's revenue is principally generated on a 'point in time' basis, the amount of revenue recognised by the Group on an 'over-time' basis is not material in the context of the Group's total revenue.

(iii) AASB 2016-5 Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions

The adoption of this amending Standard did not have any impact on the disclosures or the amounts recognised in the Group's condensed consolidated financial statements.

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

29 SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) New accounting standards and interpretations (continued)

The effects of the following Standards that are issued but not yet effective are still being determined:

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

AASB 16 *Leases* is effective for the Group from 1 July 2019 and will have a significant impact on the Group's consolidated financial statements for the year ended 30 June 2020. The Group has identified all arrangements that will be subject to the new standard, which are predominately the leases for the Group's retail stores along with warehouses and support offices.

The Group has elected to transition to the new standard using the modified retrospective approach, therefore the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information. The Group expects to be able to provide supplementary information in investor presentations during the transition period to bridge the financial statements between the new and old standard.

When applying the modified retrospective approach, the Group has elected to apply a number of practical expedients including:

- the use of hindsight in determining the lease term where the contract contains options to extend the lease; and
- non-lease components will not be separated out from lease components of a lease.

The treatment of lease options available to the Group will be assessed on a lease by lease basis and will be added to the lease term as appropriate, taking into consideration the current and future performance of the specific location and any planned relocations.

The Group has substantially completed its implementation assessment of the new standard, however certain technical and judgemental aspects of the revised accounting policy remain open, including the determination of lease terms for leases with options and leases in holdover, which could have a material impact on the outcomes under the new standard. An indicative range of the financial impacts from adoption of the new standard is set out below allowing for these uncertainties. The actual financial impact on the results for the 30 June 2020 financial year will also be contingent on any new leases that are entered into during the financial year.

	<i>Estimated impact \$m</i>
Estimated impact on the Balance sheet at 1 July 2019	
Recognition of right of use asset	\$675.0 - \$775.0
Recognition of lease liability	(\$775.0) - (\$875.0)
De-recognition of lease accrual/incentive	\$41.0
Increase in deferred tax asset	\$17.7 - \$20.7
Reduction in net assets	(\$38.3) - (\$41.3)
Estimated impact on Profit & Loss for year ending 30 June 2020	
Increase in EBITDA	\$150.0 - \$175.0
Increase in EBIT	\$16.0 - \$18.0
Reduction in net profit before tax	(\$7.0) - (\$9.0)
Reduction in net profit after tax	(\$4.9) - (\$6.3)
Estimated impact on Cash Flows for the year ending 30 June 2020	
Increase in operating cash flows	\$135.0 - \$185.0
Decrease in financing cash flows	(\$135.0) - (\$185.0)
Net cash flows	\$0.0

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

(i) AASB 2018-1 *Amendments to Australian Accounting Standards - Annual Improvements 2015 - 2017 Cycle* (effective 1 January 2019)

(ii) AASB 2018-2 *Amendments to Australian Accounting Standards - Plan Amendment, Curtailment or Settlement* (effective 1 January 2019)

(iii) Interpretation 23 *Uncertainty over Income Tax Treatments* (effective 1 January 2019)

30 EVENTS OCCURRING AFTER THE REPORTING PERIOD

There have been no 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.

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ADDITIONAL SECURITIES EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 5 August 2019.

A. Distribution of equity securities

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

Holding	Ordinary shares		
	Total Holders	Units	% Issued Capital
1 - 1,000	16,085	5,449,413	4.74
1,001 - 5,000	4,016	8,128,442	7.08
5,001 - 10,000	306	2,103,149	1.83
10,001 - 100,000	156	3,870,937	3.37
100,001 and over	21	95,331,431	82.98
	20,584	114,883,372	100.00

There were 272 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:

Name	Ordinary shares	
	Number held	% of issued shares
1. J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	28,792,775	25.06
2. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	28,100,358	24.46
3. CITICORP NOMINEES PTY LIMITED	15,522,642	13.51
4. BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	7,653,711	6.66
5. NATIONAL NOMINEES LIMITED	6,621,147	5.76
6. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	2,261,306	1.97
7. BNP PARIBAS NOMS PTY LTD <DRP>	2,099,128	1.83
8. CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	963,822	0.84
9. NATIONAL NOMINEES LIMITED <N A/C>	775,000	0.67
10. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	456,482	0.40
11. AMP LIFE LIMITED	376,217	0.33
12. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	371,072	0.32
13. 3RD WAVE INVESTORS LTD	300,000	0.26
14. SCCASP HOLDINGS PTY LTD <H & R SUPER FUND A/C>	175,400	0.15
15. CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	173,654	0.15
16. POWERWRAP LIMITED <SCHEME - IML TRADES A/C>	163,740	0.14
17. NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	153,247	0.13
18. FULLFIELD PTY LTD <D L RODD FAMILY A/C>	150,000	0.13
19. ASTRASET PTY LTD <ALBENISA SUPER FUND A/C>	113,211	0.10
20. BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	108,519	0.09
	95,331,431	82.96

C. Substantial holders

Substantial holders in the Company are set out below:

Ordinary shares	<i>Number held</i>	<i>Voting Power %</i>
AustralianSuper Pty Ltd	11,515,044	10.02
Legg Mason Asset Management Australia Limited	10,682,309	9.30
Ausbil Investment Management Limited	5,881,121	5.12
The Vanguard Group	5,804,822	5.05
Mitsubishi UFJ Financial Group Inc.	5,751,639	5.01

D. Unquoted equity securities	<i>Number on issue</i>	<i>Number of holders</i>
Employee share options issued under the Company's share option plans	1,237,837	149

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CORPORATE INFORMATION

ABN 80 093 220 136

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