JB HI-FI

ANNUAL REPORT 2017

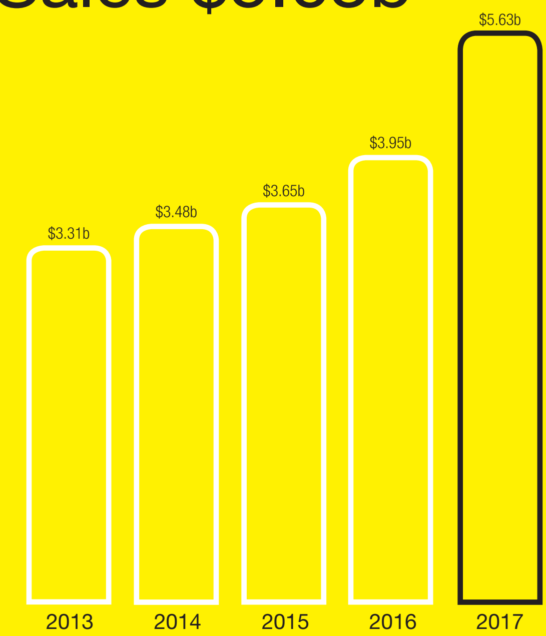
Financial Summary

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.

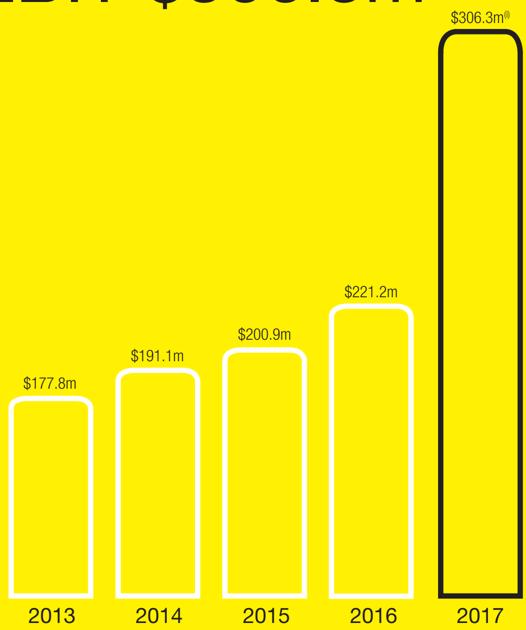
FINANCIAL PERFORMANCE

	2013 Statutory	2014 Statutory	2015 Statutory	2016 Statutory	2017 Statutory	2017 Underlying(i)	Growth Underlying(i)
Sales	$3.31b	$3.48b	$3.65b	$3.95b	$5.63b	$5.63b	42.3%
EBIT	$177.8m	$191.1m	$200.9m	$221.2m	$268.2m	$306.3m	38.5%
NPAT(ii)	$116.4m	$128.4m	$136.5m	$152.2m	$172.4m	$207.7m	36.5%
Earnings per share	117.7cps	128.4cps	137.9cps	153.8cps	154.3cps	186.0cps	22.4%
Total dividend - fully franked	72.0cps	84.0cps	90.0cps	100.0cps	118cps	118cps	18.0%

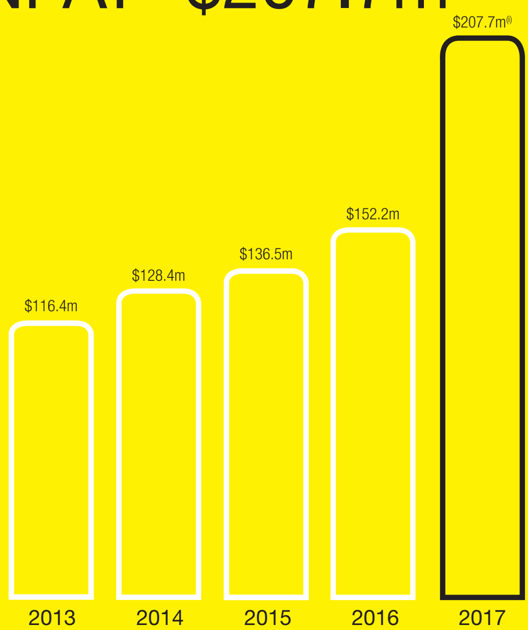
Sales $5.63b



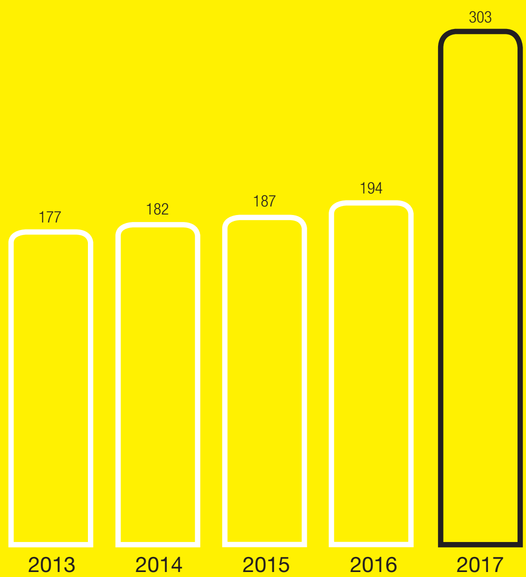
EBIT $306.3m



NPAT(ii) $207.7m



Stores



(i) Underlying results exclude transaction fees and implementation costs totalling $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.
(ii) Profit attributable to the owners of JB Hi-Fi Limited, excludes non-controlling interests.

Chairman's and Chief Executive Officer's Report[1]

Dear fellow shareholder,

2017 has been a great year for JB Hi-Fi Limited. It is very pleasing to report that the year ended 30 June 2017 was another record year with sales, profits and dividends all up on the prior year and in November 2016 we successfully completed the purchase of The Good Guys. The 2017 result was driven by a combination of sales growth, a continued focus on growth in gross profit dollars and our low cost of doing business, underpinned by our ongoing emphasis on customer service.

Overview

JB Hi-Fi Limited and its subsidiaries (the "Group") achieved sales of $5.6 billion, up 42.3% on the prior year. Group underlying EBIT was up 38.5% on the prior year to $306.3 million. Group underlying NPAT was up 36.5% to $207.7 million and Statutory NPAT was up 13.3% to $172.4 million. Earnings per share was up 22.4% to 186.0 cents per share and the total dividend for FY17 was up 18 cents per share on the prior year to 118 cents per share.

JB Hi-Fi Australia

JB Hi-Fi Australia total sales grew 10.9% to $4.15 billion, with comparable sales up 8.6%. Online sales grew 38.4% to $158.9 million or 3.8% of total sales, reflecting continuous improvement across many aspects of the business's digital assets. JB Hi-Fi Solutions continued to grow and remains on track to deliver on its longer term aspirational sales target of approximately $500 million per annum.

Gross profit increased by 11.7% to $922.8 million resulting in a gross margin of 22.2%. CODB was 15.0%, down 21 bps on the prior year. Total operating costs were in line with our expectations and remained well controlled as the business continued to deliver the high standard of customer service that JB Hi-Fi is known for. The business's low CODB remains a competitive advantage and is maintained through continued focus on productivity and minimising unnecessary expenditure.

Strong sales growth, combined with operating cost leverage, drove strong earnings growth. EBIT was up 19.1% on the prior year to $262.4 million while EBIT margin was up 43 bps at 6.3%.

JB Hi-Fi New Zealand

Total sales were down 0.3% to NZD234.0 million, with comparable sales down 8.8%. Sales in the prior year were aided by market wide demand for third party content cards. Excluding the impact of these cards (NZD8.4m), total sales in New Zealand were up 3.4%, with comparable sales down 5.3%.

Online sales in New Zealand for FY17 grew 5.3% to NZD4.9 million or 2.1% of total sales. We have recently launched a new website and are pleased with its performance to date.

In light of the challenging recent financial performance in New Zealand, fixed asset and goodwill impairments totalling AUD15.8 million were recorded in the statutory FY17 results. This was a non-cash adjustment.

We have completed a review of the New Zealand business and are finalising a two year strategy to improve performance.

The Good Guys

The Good Guys was acquired on 28 November 2016. For the period under JB Hi-Fi ownership, total sales were up 0.2% to $1.26 billion with comparable sales down 1.3%. Online sales were $64.4 million or 5.1% of total sales. Total operating costs were in line with expectations and store wages remained well controlled. Similar to the JB Hi-Fi business, the low CODB remains a competitive advantage and will continue to be a focus moving forward. Earnings for the period under JB Hi-Fi ownership of $46.4 million were pleasing and in line with the prior year.

Terry Smart was appointed Managing Director of The Good Guys in April 2017. Since Terry's appointment we have made a number of positive changes in both the stores and at support office to position the business for future growth.

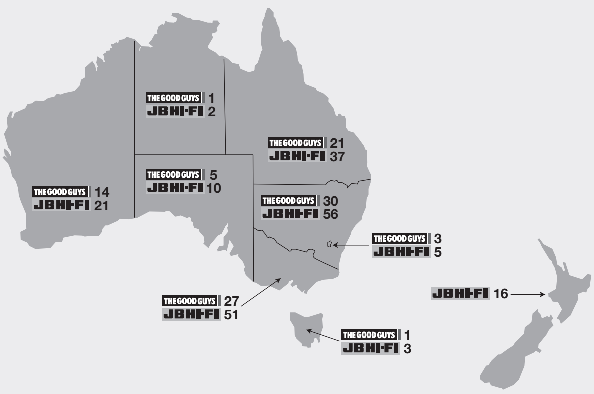
Stores

We had 303 stores in Australia and New Zealand at 30 June 2017. In Australia, six new JB Hi-Fi stores were opened and in New Zealand one new JB Hi-Fi store was opened. On acquisition of The Good Guys, we acquired 103 stores. Since acquisition, one new The Good Guys store has been opened and two closed. There were 102 The Good Guys stores open as at 30 June 2017.

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.

[1] Unless otherwise stated, all results disclosed in this report are underlying results which exclude transaction fees and implementation costs totalling $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.

Total Stores: 303*
(JB Hi-Fi: 201, The Good Guys: 102)



* As at 30 June 2017

Synergy Update

We are pleased to confirm that we expect to achieve the upper end of our synergy target of $15 million - $20 million. This target is now expected to be fully realised in FY19, one year earlier than originally anticipated, with approximately half of the benefit to be achieved in FY18. We expect the remaining $2 million - $4 million of implementation costs to be incurred in the first half of FY18. The synergies will be recorded within earnings in each of the JB Hi-Fi and The Good Guys businesses in FY18 and FY19 and are broadly split equally between both businesses. We will continue to seek efficiencies and drive further synergies. Any upside to our original target will be reinvested in the businesses to strengthen their competitive position and drive future growth.

We are very pleased with the opportunities that the combined Group provides. Both JB Hi-Fi and The Good Guys have a proud history of delivering great value every day to customers and, as we realise value from the Group's scale, we will reinvest in both businesses to strengthen their competitive position and drive future growth.

Group Balance Sheet, Capital Management and Dividends

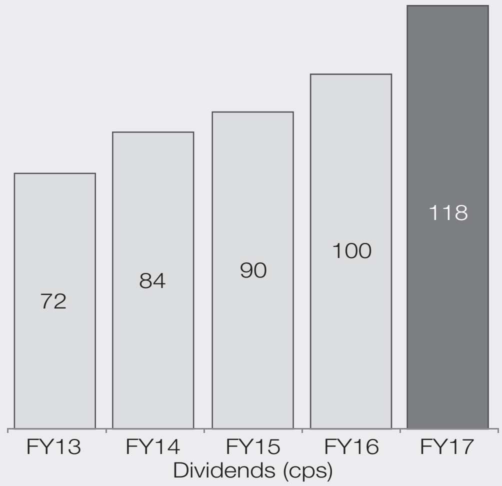
The balance sheet continues to grow in strength with relatively low financial and operating leverage, evidenced by our solid fixed charges cover of 3.2 times, gearing of 1.6 and interest cover of 28.8 times. All Group performance indicators are influenced by the timing of The Good Guys acquisition, with all ratios including earnings from The Good Guys from 28 November to 30 June 2017.

In November 2016, approximately $500m of term debt was drawn to fund the acquisition of The Good Guys. As part of the acquisition of The Good Guys, we completed a 1 for 6.60 fully underwritten, pro-rata, accelerated, renounceable entitlement offer of approximately $394 million on 6 October 2016. 15.0 million new shares were issued as part of the entitlement offer.

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, enables us to consider various capital management initiatives.

The Board has declared a final dividend of 46 cents per share fully franked, bringing the total dividend for FY17 to 118 cents per share, up 18 cents per share on the prior year. The Board believes that our dividend payout ratio of 65% appropriately balances the distribution of profit to shareholders and the reinvestment of earnings for future growth.

FY17 dividend up 18.0% to 118 cps



Board Appointment

In February 2017, we announced the appointment of Mark Powell as a non-executive director with effect from 13 March 2017. Mark has more than 30 years' retail, wholesale and logistics experience, having held senior positions with many well-known retailers, including five years as Group CEO of the Warehouse Group in New Zealand.

We are delighted to welcome Mark to the Board, he brings great experience across a range of areas as well as an in-depth knowledge of The Good Guys business, and we are very much looking forward to working with him.

Board and Management Approach

The Board recognises the importance of governance, environmental and social matters to our shareholders, suppliers and customers and continually reviews and monitors developments in corporate governance which are relevant to 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.

[1] Unless otherwise stated, all results disclosed in this report are underlying results which exclude transaction fees and implementation costs totalling $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.

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 employee option plan maintains a strong alignment with shareholders and is a critical tool in attracting new management, retaining existing management and rewarding performance.

Helping Hands

The JB Hi-Fi business' workplace giving program, established in 2008 and known as Helping Hands, enables JB Hi-Fi directors, executives and employees to donate to registered charitable organisations. In November 2016, the Helping Hands program was awarded Best Overall Program and Most Innovative Charity/Employer Partnership at the Workplace Giving Awards. JB Hi-Fi matches dollar for dollar regular employee contributions through its payroll system, effectively doubling the financial benefit to our community partners. Workplace giving programs have proved to be a very effective way for employers and employees to join together to support the community.

Each week nearly 5,800 or 79% of the JB Hi-Fi business' staff give to the program and, as recognised by the Australian Charities Fund, make it one of the most successful workplace giving programs in Australia and New Zealand. Through the combined giving of JB Hi-Fi and its employees, we believe we make a real difference to the charities in the program. In total, including one-off campaigns since we launched Helping Hands, we have raised $13.6 million for our charity partners across Australia and New Zealand.

The Good Guys Workplace and Local Giving Program

The Good Guys business launched its own workplace giving program in July 2017, under which it matches dollar for dollar regular contributions which are made by team members, effectively doubling the benefit to its national charity partners.

The Good Guys business also makes a donation for each customer transaction to its national charity partners under its Local Giving Program. Since the establishment of the Local Giving Program in 2006, The Good Guys business has donated more than $10 million to various charities under the program.

Outlook

We continue to invest in our store network, online offering and Solutions business. These initiatives, coupled with a strong promotional plan, will position us well for growth in FY18.

In FY18 we expect:

- to open five new JB Hi-Fi stores and continue to monitor opportunities for new The Good Guys stores; and
- total Group sales to be circa $6.8 billion.

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. Your Board and management team remain committed to maintaining this.

We look forward to another exciting and successful year in FY18.

Greg Richards
Chairman

Richard Murray
Group Chief Executive Officer

Melbourne,
28 August 2017

Annual Report

for the financial year ended **30 June 2017**

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, except as otherwise disclosed in this Corporate Governance Statement (see sections entitled "Code of Conduct" and "Diversity"):

- 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 2017 financial year, it has been compliant with the spirit of the principles contained in the ASX Recommendations.

This Corporate Governance Statement has been approved by the Board and is effective as at 14 August 2017.

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 website at www.jbhifi.com.au via the "Investors" and "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 website at www.jbhifi.com.au via the "Investors" and "Governance" sections. The Board will undertake appropriate checks before appointing any person or putting forward to shareholders a candidate for election as a director.

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

Independence

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 nature of the consultancy arrangements (and that Richard was not provided with remuneration for that role but was, instead, allowed to retain options granted to him whilst he was CEO) and the passage of time, the Board is of the opinion that Richard is an independent director, and that neither these previous roles, nor his relationship with current management, compromises his ability to exercise independent, unfettered judgement or act in the best interests of the Company.

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

Conflict of interest

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

Board meetings

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

Access to information and independent advice

Each director has the right of access to all relevant Company information and to the 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 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 website at www.jbhifi.com.au via the "Investors" and "Governance" sections.

During the 2017 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 since 29 August 2016;
- Mark Powell: Ongoing member of Committee since 13 March 2017; and
- Gary Levin: Member of the Committee until 27 October 2016.

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 2017 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 website at www.jbhifi.com.au via the "Investors" and "Governance" sections.

During the 2017 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;
- Wai Tang: Ongoing member of Committee since 26 October 2016; and
- Gary Levin: Member of the Committee until 27 October 2016.

The Remuneration Committee meets as required. Details of the meetings held and members' attendance during the 2017 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 website at www.jbhifi.com.au via the "Investors" and "Governance" sections.

COMPANY SECRETARY

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

CODE OF CONDUCT

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. During a transitional period following the acquisition of The Good Guys business by the Group, the JB Hi-Fi business and The Good Guys business each had their own separate Codes of Conduct which applied to their respective executives and employees. Accordingly, to the extent that the Group did not have a single Code of Conduct which applied to all directors, executives and employees of the Group during this transitional period, the Group may not technically have complied with recommendation 3.1 of the ASX Recommendations for the entire 2017 financial year.

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

DIVERSITY

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 website at www.jbhifi.com.au via the "Investors" and "Governance" sections. The Diversity Policy was formally rolled out to The Good Guys business after a transitional period following completion of its acquisition by the Group and, prior to this rollout, The Good Guys had a separate diversity policy.

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 therefore exist that prevents this from occurring.

Gender diversity

As at 30 June 2017, the proportion of women engaged by the Group was as follows:

- Board: 29% being 2 of 7 directors (2016: 33%).
- Senior Management/Executive (excluding the executive director/Group CEO): 18% being 9 of 50 employees (2016: 12%). For these purposes, Senior Management/Executive means:
    - the 5 executives listed on page 32 of this Report who were employed on 30 June 2017 and were classified as key management personnel of the Company as at 30 June 2017, excluding the executive director/Group CEO; and
    - the 45 next most senior managers of the Group.
- Group: 40.6% being 4,812 of 11,848 employees (2016: 39.5%).

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

	Group[1]	**JB Hi-Fi Business Only**					
Objective	*June 2017*	*June 2017*	*June 2016*	*June 2015*	*June 2014*	*June 2013*	*June 2012*
To improve the percentage of female to male commissioned store sales staff over each of the next 3 years	27%	25%	23%	22%	21%	21%	21%
To improve the percentage of female to male store managers over the next 3 years	14%	14%	12%	10%	10%	11%	11%
To improve the percentage of female to male territory/regional/area managers over the next 3 years	13%	14%	9%	9%	0%	0%	0%
To increase the percentage of female senior managers over the next 3 years	18%	14%	12%	8%	4%	5%	9.5%

[1] JB Hi-Fi Group, including both the JB Hi-Fi and The Good Guys businesses.

Since setting these objectives the JB Hi-Fi business has taken the following actions:

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

Additionally, The Good Guys business has taken the following gender diversity initiatives:

- reviewed employee pay to consider whether any gender based disparity exists;
- established a diversity policy and equal opportunity policy which outline the business' commitment to equal opportunity throughout the employee lifecycle; and
- established a flexible work arrangements policy and practices with a focus on return to work from maternity leave.

The Group is currently undertaking a review of its gender diversity objectives and the plans for achieving them. The Group will report further on progress in this area in the 2018 Annual Report.

SHAREHOLDINGS OF DIRECTORS AND EMPLOYEES

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

Subject to certain specific and limited exceptions, directors and key employees may only trade in 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 website at www.jbhifi.com.au via the "Investors" and "Governance" sections.

INTEGRITY OF REPORTING

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

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

(a) the financial records of the consolidated entity (consisting of the Company and the entities it controlled for the financial year ended 30 June 2017) 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 2017, no changes or other matters have arisen that would have a material effect on the operation of the risk management and internal control systems of the Group.

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

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

CONTINUOUS DISCLOSURE

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

The Board has approved a Continuous Disclosure Policy to ensure that the procedures for identifying and disclosing material price sensitive information in accordance with the Corporations Act and ASX Listing Rules are clearly articulated. This policy sets out the obligations of employees in respect of such information. The 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 website at www.jbhifi.com.au via the "Investors" and "Governance" sections.

SHAREHOLDER COMMUNICATIONS

The Group's websites www.jbhifi.com.au and www.thegoodguys.com.au contain an overview of the Group's businesses and their history.

The Company's website (www.jbhifi.com.au) contains an "Investors" section which includes the following information for shareholders:

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

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

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

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

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

RISK IDENTIFICATION AND MANAGEMENT

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 2016.

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 led by a Group Risk & Assurance Manager. The Group Risk & Assurance Manager is a member of the JB Hi-Fi business' senior management team, has direct access to the Chair of the Audit and Risk Management Committee, and attends all meetings of the Committee at which risk management is considered. 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 led by a Business Assurance Manager.

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

ECONOMIC, ENVIRONMENTAL & SOCIAL SUSTAINABILITY RISKS

Economic sustainability risks

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

The Group is exposed to a number of economic sustainability risks, which have a real possibility of substantively impacting on the Group's ability to create or preserve value for its shareholders over the short, medium or long term. These economic sustainability risks (together with 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 27.

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, as well as various recycling initiatives related to the products the Group sells.

Social sustainability risks

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

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

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

BOARD AND EXECUTIVE PERFORMANCE

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

In June/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 executives has been conducted in respect of the 2017 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 reducing the impact its business has on the Australian and New Zealand environments, and has implemented several initiatives to help achieve this. The initiatives outlined below predominantly relate to the JB Hi-Fi business and, where appropriate, the Group is considering the expansion of such initiatives to The Good Guys business.

Carbon disclosure project

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

The JB Hi-Fi business has provided its 2017 response to the CDP, but it is yet to be assessed. In 2016, the JB Hi-Fi business received a rating of C- under the new CDP rating system.

Promotion of energy efficient products

The JB Hi-Fi business participates in the Smarter Choice program in conjunction with the Victorian and New South Wales State Governments. This program educates employees of the JB Hi-Fi business on how to best advise customers about the energy efficiency of products. The Good Guys business also works with Energex in Queensland to promote PeakSmart air-conditioners, which help reduce peak electricity demand.

Australian Packaging Covenant

The JB Hi-Fi business is a signatory to the Australian Packaging Covenant. This is a voluntary program involving both Government and industry to ensure the environmental impact from packaging is reduced, measured and understood. Each signatory to the Australian Packaging Covenant is required to have an action plan which sets out what the signatory proposes to do to contribute to the Australian Packaging Covenant's objectives and goals. JB Hi-Fi reports annually to the Australian Packaging Covenant Council and signatories to the Australian Packaging Covenant are given a rating (out of 5) on their performance against their action plan annually. The JB Hi-Fi business received a rating of 3.2 for FY2017 from the Australian Packaging Covenant Council for its performance against its action plan (FY2016: 3.3).

Mobile phone recycling

Mobile Muster is an initiative of the Australian Mobile Telecommunications Association introduced to facilitate mobile phone recycling. Since 2010, the JB Hi-Fi business has implemented this voluntary initiative to facilitate the return of used mobile phones by customers.

Cartridges 4 Planet Ark

Both the JB Hi-Fi business and The Good Guys business are Cartridges 4 Planet Ark collection partners. 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 FY2017, approximately 45,000 cartridges were recycled through the Group's participation in this program. Since the commencement of the Group's participation in this program approximately 180,000 cartridges have been recycled (in addition to cartridges recycled by The Good Guys prior to its acquisition by the Group).

Store recycling initiatives

Waste from business operations is recycled where possible. All stores have paper and cardboard recycling bins and certain stores also recycle old appliances.

Support offices

The JB Hi-Fi support office and The Good Guys support office are both located in environmentally friendly office buildings.

SOCIAL STATEMENT

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

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

Established in 2008, Helping Hands is the JB Hi-Fi business' workplace giving program. In November 2016, the Helping Hands program was awarded Best Overall Program and Most Innovative Charity/Employer Partnership at the Workplace Giving Awards. 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 regular employee contributions through its payroll system, effectively doubling the financial benefit to its community partners.

The JB Hi-Fi business works with The Australian Charities Fund ("ACF") in Australia to develop and maintain the program and, in doing so, contributes to the Group's vision of seeing 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 over 5,800 JB Hi-Fi Australia employees (approximately 79% of total JB Hi-Fi Australia employees) each making weekly contributions. This year over $2,100,000 has been raised and, since its inception, the JB Hi-Fi business and its employees are proud to have raised more than $11,200,000.

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

Helping Hands – New Zealand

The Helping Hands program was launched in New Zealand in May 2012 and involves over 280 employees (approximately 53% of JB Hi-Fi New Zealand employees) each making weekly contributions. This year over $88,000 was raised and, since its inception, over $330,000 has been raised. The current charity partners in New Zealand are ShelterBox, Kenzies Gift, Forest and Bird, Youthline and Plunket.

The Good Guys' workplace giving program

The Good Guys business launched its own workplace giving program in July 2017, under which it matches dollar for dollar regular contributions which are made by team members, effectively doubling the benefit to its national charity partners.

The national charity partners to which donations are currently made are 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 over $54,000 has been collected in Australia and, since inception, the program has raised over $540,000. In New Zealand approximately $27,000 has been collected since boxes were first introduced into stores.

"Employer Leadership Group" – founding partner

In addition to its contribution through Helping Hands, the JB Hi-Fi business is a founding partner of the Australian Charities Fund's "Employer Leadership Group" ("ELG") that was formed in October 2010 to generate awareness of the benefits of workplace giving programs across the leadership of Australian businesses. The goal of ACF is to achieve one million Australians giving to charity through their place of work by 2020. Members of the ELG have demonstrated best practice in engaging with their employees around community issues and are committed to leading the growth of the sector alongside the ACF. As a founding partner, 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 and the Group CEO, Richard Murray, is Chairman of the ELG. In addition to the Helping Hands and Change for Change contributions detailed above, from 2012 to 2017 the Group has made contributions to ACF totalling $225,000 in order to support its initiatives.

The Good Guys' Local Giving Program

The Good Guys business makes a donation for each customer transaction to its national charity partners under its Local Giving Program. Since the establishment of the Local Giving Program in 2006, The Good Guys business has donated more than $10 million to various charities under the program.

Doing Good Day and Christmas Giving campaigns

In 2015, The Good Guys business commenced two flagship national campaigns, Doing Good Day and Christmas Giving, under which a range of products and gift cards are donated to individuals in need and not-for-profit organisations who have been nominated by customers. These campaigns allow The Good Guys business to support local charities and community organisations outside of its national charity partners who receive donations through the Local Giving Program.

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 2017. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

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

Name	*Particulars*
Mr Greg Richards Chairman Non-Executive Director B.Ec (Hons)	Greg was appointed to the Board in December 2007 and was appointed Chairman of the Board in June 2012. Greg is a member and Chairman of the Remuneration Committee and was Chairman of the Audit and Risk Management Committee from February 2010 until May 2012. Prior to 2006, Greg had over 25 years’ experience in the investment banking industry. Most recently he was with Goldman Sachs JBWere for over 19 years where he was an equity partner for 17 years, working primarily in equity capital markets. Greg was also the non-executive chairman of Vitaco Holdings Limited from August 2015 to December 2016.
Mr Stephen Goddard Non-Executive Director MSc. BSc (Hons)	Stephen was appointed to the Board on 25 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 of GWA Group Limited and 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	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. 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. 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.
Mr Mark Powell Non-Executive Director BSc (Hons), MSc, MBA (Distinction), BApp. Theol, MA (Hons)	Mark was appointed to the Board on 13 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, New Zealand’s largest listed retail group which includes Noel Leeming, NZ’s largest technology and appliances retailer. Most recently he was an advisor to the board of The Good Guys for 18 months prior to its acquisition by JB Hi-Fi. He is also currently ‘CEO-in-residence’ at Massey Business School and involved on a voluntary basis with 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 Kikki K, the Melbourne Festival and Visit Victoria. Wai’s former directorships include Speciality Fashion Group and the Melbourne Fashion Festival.

Mr Richard Uechtritz Non-Executive Director	Richard has over 30 years' experience in retailing. He was co-founder of Australia's two leading photo chains, Rabbit Photo and Smiths Kodak Express. He was also a director of Kodak (Australasia) Pty Ltd. Richard led the management buy-in of JB Hi-Fi in July 2000 and was CEO and Managing Director until his resignation from these positions in May 2010. Richard re-joined the Board in April 2011 as a non-executive director. He is also a non-executive director of Seven Group Holdings Limited.
Mr Richard Murray 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 over 20 years' experience in retail and finance. He joined JB Hi-Fi as CFO in 2003 and took the business through the IPO process. Prior to this Richard worked with Deloitte for 10 years. He is currently Chairman of the Australian Charities Fund Employer Leadership Group, which aims to encourage Australian businesses to set up workplace giving programs.
Mr Gary Levin Non-Executive Director B.Comm, LLB	Gary was appointed to the Board in November 2000 and retired on 27 October 2016. Gary was a member of the Audit and Risk Management Committee and the Remuneration Committee.

Each of the aforementioned directors held office for the whole financial year and since the end of the financial year other than Stephen Goddard, Mark Powell and Gary Levin as set out above.

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

Directorships of other listed companies

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

Name	*Company*	*Period of Directorship*
Greg Richards	Vitaco Holdings Limited	August 2015 (listed September 2015) – December 2016
Beth Laughton	Australand Holdings Limited, Australand Property Limited, Australand Investments Pty Ltd	May 2012 – October 2014
Stephen Goddard	GWA Group Limited Pacific Brands Limited Surfstitch Group Limited	Since October 2016 May 2013 – July 2016 November 2014 (listed December 2014) – December 2016
Wai Tang	Vicinity Limited	Since May 2014
Richard Uechtritz	Seven Group Holdings Limited	Since June 2010
Gary Levin (non-executive director until 27 October 2016)	Baby Bunting Group Limited	Since August 2014 (listed October 2015)

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 22 to 29.

Changes in state of affairs

On 28 November 2016 the Group acquired 100% of The Good Guys, a leading retailer of home appliances and consumer electronics to the Australian market. The acquisition creates a best-in-class retailing combination and allows for significant expansion of the Group's capability in the home appliances market.

The acquisition of The Good Guys was funded through a 1 for 6.60 fully underwritten, pro-rata, accelerated, renounceable entitlement offer with retail entitlements trading which raised approximately $394 million, with the balance funded through a combination of existing debt facilities plus a new $450 million multi-tranche acquisition debt facility.

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 2016, as detailed in the Directors' Report for that financial year, an interim dividend of 63.0 cents per share and a final dividend of 37.0 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 4 March 2016 and 9 September 2016 respectively.

In respect of the financial year ended 30 June 2017, an interim dividend of 72.0 cents per share was paid to the holders of fully paid ordinary shares on 10 March 2017 and the directors have declared the payment of a final dividend of 46.0 cents per share, to be paid to the holders of fully paid ordinary shares on 8 September 2017. Both dividends are franked to 100% at the 30% corporate income tax rate. The total dividend for the financial year of 118.0 cents per share represents a payout ratio of 65% of underlying net profit after tax (as set out on page 22).

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 2017 financial year and the number of meetings attended by the members of the Board or the relevant Committee. During the financial year, 18 Board meetings, 5 Remuneration Committee meetings and 7 Audit and Risk Management Committee meetings were held.

	Board of Directors		Remuneration Committee		Audit and Risk Management Committee	
Directors	*Held*	*Attended*	*Held*	*Attended*	*Held*	*Attended*
G. Richards	18	18	5	5	–	–
S. Goddard	12	12	–	–	5	5
B. Laughton	18	18	5	5	7	7
M. Powell	4	4	–	–	2	2
W. Tang	18	18	4	4	7	7
R. Uechtritz	18	18	–	–	–	–
R. Murray	18	18	–	–	–	–
G. Levin	10	10	2	2	3	3

Directors' shareholdings

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

	Fully paid ordinary shares			Executive share options		
Directors	*Direct number*	*Indirect number*	*Total*	*Direct number*	*Indirect number*	*Total*
G. Richards	3,455	23,031	26,486	–	–	–
S. Goddard	1,500	–	1,500	–	–	–
B. Laughton	2,304	–	2,304	–	–	–
M. Powell	–	–	–	–	–	–
W. Tang	–	3,700	3,700	–	–	–
R. Uechtritz	11,516	–	11,516	–	–	–
R. Murray[(i)]	103,268	2,304	105,572	322,105	–	322,105

(i) Excludes any options that may be granted by the Board in August 2017. The issue of any such options to R. Murray, the executive director of the Company, is also subject to shareholder approval at the Company's Annual General Meeting in October 2017.

Remuneration Report

The Remuneration Report, which forms part of this Directors' Report, is presented separately on pages 30 to 55.

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.

In FY2017 the Group engaged its auditor to provide non-audit services in the form of providing an independent review of synergies in connection with the acquisition of The Good Guys during the due diligence phase. As disclosed in note 29 to the financial statements, the fee for the work in FY2017 was $35,200. This work is now complete and no further assistance from the Company's auditor on this project is anticipated. The directors are satisfied that the provision of these non-audit services during the year by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

Based on advice received from the Audit and Risk Management Committee, the directors are of the opinion that these services as disclosed in note 29 to the financial statements do not compromise the auditor's independence, for the following reasons:

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

Auditor's independence declaration

The auditor's independence declaration is included on page 56 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

Richard Murray
Group Chief Executive Officer

Melbourne
14 August 2017

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 (JB Hi-Fi business only).

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 (185 JB Hi-Fi/JB Hi-Fi Home stores in Australia, 16 JB Hi-Fi/JB Hi-Fi Home stores in New Zealand and 102 The Good Guys stores in Australia as at 30 June 2017) and online operations (JB Hi-Fi and The Good Guys websites). Sales are also generated from the Group's commercial and education solutions offer, JB Hi-Fi Solutions.

GROUP FINANCIAL PERFORMANCE – HIGHLIGHTS

Unless otherwise stated, all FY2017 results disclosed in this Operating and Financial Review are underlying results which exclude transaction fees and implementation costs totalling $22.4 million associated with the acquisition of The Good Guys in November 2016 and goodwill and fixed asset impairment charges in relation to the JB Hi-Fi New Zealand business totalling $15.8 million.

	FY2017[1]	*FY2016*	*Mvt*
Total Sales ($m)	5,628.0	3,954.5	+42.3%
Underlying earnings before interest and tax ($m)	306.3	221.2	+38.5%
Underlying net profit after tax ($m)	207.7	152.2	+36.5%
Underlying earnings per share (basic ¢)	186.0	151.9[2]	+22.4%
Dividend per share (¢)	118.0	100.0	+18.0%

[1] Underlying results which exclude transaction fees and implementation costs totalling $22.4 million associated with the acquisition of The Good Guys in November 2016 and goodwill and fixed asset impairment charges in relation to the JB Hi-Fi New Zealand business totalling $15.8 million.

[2] In accordance with AASB 133, the comparative period (FY2016) EPS has been restated to reflect the bonus element of the entitlement offer associated with the acquisition of The Good Guys in November 2016 (unadjusted FY2016 EPS: 153.8 cps).

Total sales grew by 42.3% to $5,628.0 million, underlying earnings before interest and tax grew by 38.5% to $306.3 million and underlying net profit after tax grew by 36.5% to $207.7 million (statutory net profit after tax was $172.4 million, up 13.3% from FY2016). Underlying earnings per share were up 22.4% to 186.0 cps.

This strong growth has been achieved through a combination of the organic growth of the JB Hi-Fi business and the post-acquisition contribution of The Good Guys business (for the period 28 November 2016 to 30 June 2017).

DIVISIONAL PERFORMANCE

JB Hi-Fi Australia

	FY2017[1]	FY2016	Mvt
Total Sales ($m)	4,148.6	3,739.4	+10.9%
Gross Profit ($m)	922.8	825.8	+11.7%
Gross Margin (%)	22.24%	22.08%	+16 bps
Cost of Doing Business (%)	14.96%	15.18%	(21 bps)
EBIT ($m)	262.4	220.3	+19.1%
EBIT Margin (%)	6.33%	5.89%	+43 bps
Stores (#)	185	179	+6 stores

[1] Underlying results excluding transaction fees and implementation costs associated with the acquisition of The Good Guys in November 2016.

Total sales were up 10.9% to $4,148.6 million (FY2016: $3,739.4 million) and comparable sales growth was 8.6%. Sales momentum was solid throughout FY2017, with total sales growth of 10.1% and comparable sales growth of 8.4% in the second half of FY2017 (following on from total sales growth of 11.7% and comparable sales growth of 8.7% in the first half of FY2017).

Hardware and services sales (all sales excluding Music, Movies and Games Software categories) were up 14.4% for the financial year, with comparable sales up 11.9%, driven by the Communications, Audio, Cameras, Accessories, Computers and Home Appliance categories. Software sales were -9.1% and on a comparable basis were -10.7%. By value, sales were split between hardware and services at 88.0% and software at 12.0% (FY2016: 85.3%/14.7%).

Online sales in Australia grew 38.4% to $158.9 million or 3.8% of total sales (FY2016: 3.1%), reflecting continuous improvement across many aspects of JB Hi-Fi's Australian digital assets.

Strong growth in sales and gross profit, combined with operating cost leverage, drove strong EBIT growth. EBIT was up 19.1% to $262.4 million from $220.3 million in the previous financial year. EBIT Margin was up 43 bps to 6.33%.

A continued focus on growing gross profit dollars saw gross profit increase by 11.7% to $922.8 million. Gross margin increased by 16 bps to 22.24%, driven primarily by sales mix.

Cost of Doing Business (CODB) decreased by 21 bps to 14.96%. In absolute terms, CODB grew 9.4%. Total operating costs were in line with expectations. Store wages remained well controlled as the JB Hi-Fi Australia business continued to deliver the high standard of customer service that it is known for. The JB Hi-Fi Australia business' low CODB remains a competitive advantage and is maintained through continued focus on productivity and minimising unnecessary expenditure.

JB Hi-Fi New Zealand

	FY2017[1]	FY2016	Mvt
Total Sales (NZ$m)	234.0	234.6	(0.3%)
Gross Profit (NZ$m)	42.5	43.2	(1.7%)
Gross Margin (%)	18.15%	18.42%	(26 bps)
Cost of Doing Business (%)	17.89%	16.33%	+156 bps
EBIT (NZ$m)	(2.7)	1.0	(371.8%)
EBIT Margin (%)	(1.15%)	0.42%	(157 bps)
Stores (#)	16	15	+1 store

[1] Underlying results excluding goodwill and fixed asset impairment charges.

Total sales were down 0.3% to NZ$234.0 million, with comparable sales down 8.8%. As highlighted in FY2016, sales in FY2016 were elevated by market wide demand for third party prepaid content cards. Excluding the sales impact of these cards (NZ$8.4 million), total sales growth was +3.4%, with comparable sales -5.3%.

Online sales in New Zealand for FY2017 grew 5.3% to NZ$4.9 million or 2.1% of total sales (FY2016: 2.0%).

Gross margin was down 26 bps on FY2016 to 18.2%.

In light of the challenging recent financial performance of the JB Hi-Fi New Zealand business in the last 12 months, fixed assets and goodwill impairments totalling AU$15.8 million were recorded in the statutory FY2017 results. This is a non-cash adjustment.

The Group has completed a review of the JB Hi-Fi New Zealand business and is finalising a 2 year strategy to improve performance.

The Good Guys

	FY2017[1]
Total Sales ($m)	1,258.4
Gross Profit ($m)	267.6
Gross Margin (%)	21.27%
Cost of Doing Business (%)	16.69%
EBIT ($m)	46.4
EBIT Margin (%)	3.69%
Stores (#)	102

[1] The Good Guys was acquired on 28 November 2016. The results presented are underlying results for the period of the Group's ownership (28 November 2016 to 30 June 2017) and exclude transaction and implementation costs associated with the acquisition.

For the period under the Group's ownership (28 November 2016 to 30 June 2017), total sales were up 0.2% on the same period in FY2016 to $1,258.4 million, with comparable sales -1.3%. Key growth categories were Cooking, Seasonal Products, Visual, Refrigeration and Laundry.

Online sales for the period under the Group's ownership were $64.4 million or 5.1% of total sales.

Gross profit was $267.6 million for the period under the Group's ownership, with gross margin at 21.3%.

For the period under the Group's ownership, total operating costs were in line with expectations and store wages remained well controlled. Similar to the JB Hi-Fi business, The Good Guys business' low CODB remains a competitive advantage and will continue to be a focus going forward.

Earnings for the period under the Group's ownership of $46.4 million were in line with the same period in FY2016.

SYNERGY UPDATE

The Group expects to achieve the upper end of its synergy target of $15m to $20m. This target is now expected to be fully realised in FY2019, one year earlier than originally anticipated, with approximately half of the benefit to be achieved in FY2018. The Group expects the remaining $2m - $4m of implementation costs to be incurred in the first half of FY2018. The synergies will be recorded within earnings in each of the JB Hi-Fi and The Good Guys businesses in FY2018 and FY2019 and are split broadly equally between the businesses. The Group will continue to seek efficiencies and drive further synergies. Any upside to the Group's original synergy target will be reinvested in the businesses to strengthen the Group's competitive position and drive future growth.

GROUP BALANCE SHEET, CAPITAL MANAGEMENT AND DIVIDENDS

The Group's total net assets at the end of the financial year were $853.5 million, which was $448.8 million higher than at the end of FY2016, with the increase relating mainly to the acquisition of The Good Guys and the consolidation of the assets of The Good Guys into the Group's balance sheet.

In order to fund the acquisition of The Good Guys, the Group entered into a new $450 million multi-tranche acquisition debt facility. In addition to this acquisition debt facility, the Group also has:

- a term debt facility of $200.0 million that expires in July 2018;
- overdraft facilities of $80.0 million and NZ$10.0 million which are renewable annually; and
- an additional seasonal bank overdraft facility of $50.0 million available during certain periods each year.

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 $558.8 million and cash on hand of $72.8 million resulting in net debt of $486.0 million. The increase in net debt during the financial year of $428.1 million was primarily a result of the approximately $500 million in term debt drawn down to fund the acquisition of The Good Guys.

As part of the funding for the Group's acquisition of The Good Guys, the Company undertook a 1 for 6.60 pro rata entitlement offer which raised approximately $394 million. Approximately 15.0 million new shares were issued as part of the entitlement offer. Additionally, during the financial year a further 0.4 million ordinary shares were issued to employees under the Group's share option plans.

The total dividend for the 2017 financial year of 118.0 cents per share represents a payout ratio of approximately 65% of the full year underlying earnings. The Board currently believes a 65% dividend payout ratio appropriately balances the distribution of profit to shareholders and reinvestment of earnings for future growth. The final dividend for the 2017 financial year of 46.0 cents per share fully franked will be paid on 8 September 2017 with a record date of 25 August 2017.

INVESTMENTS FOR FUTURE PERFORMANCE

Net cash outflow on investing activities was $885.5 million (up from $52.0 million in the prior year) and related predominantly to the acquisition of The Good Guys. Other investing activities comprised capital expenditure as set out below.

Investments of $49.1 million were made during the financial year in capital expenditure projects, a decrease of $3.2 million from $52.3 million during the previous financial year. These projects primarily consisted of new store openings, store relocations and upgrades, IT and online projects.

These investing activities are anticipated to contribute towards earnings growth in FY2018 and beyond.

WORKING CAPITAL

Inventory levels were in line with internal expectations. Total inventory on hand increased from the previous financial year by $313.5 million, driven primarily by the consolidation of the inventory of The Good Guys business. Inventory turnover in the JB Hi-Fi business was 6.0 times (FY2016: 6.0 times).

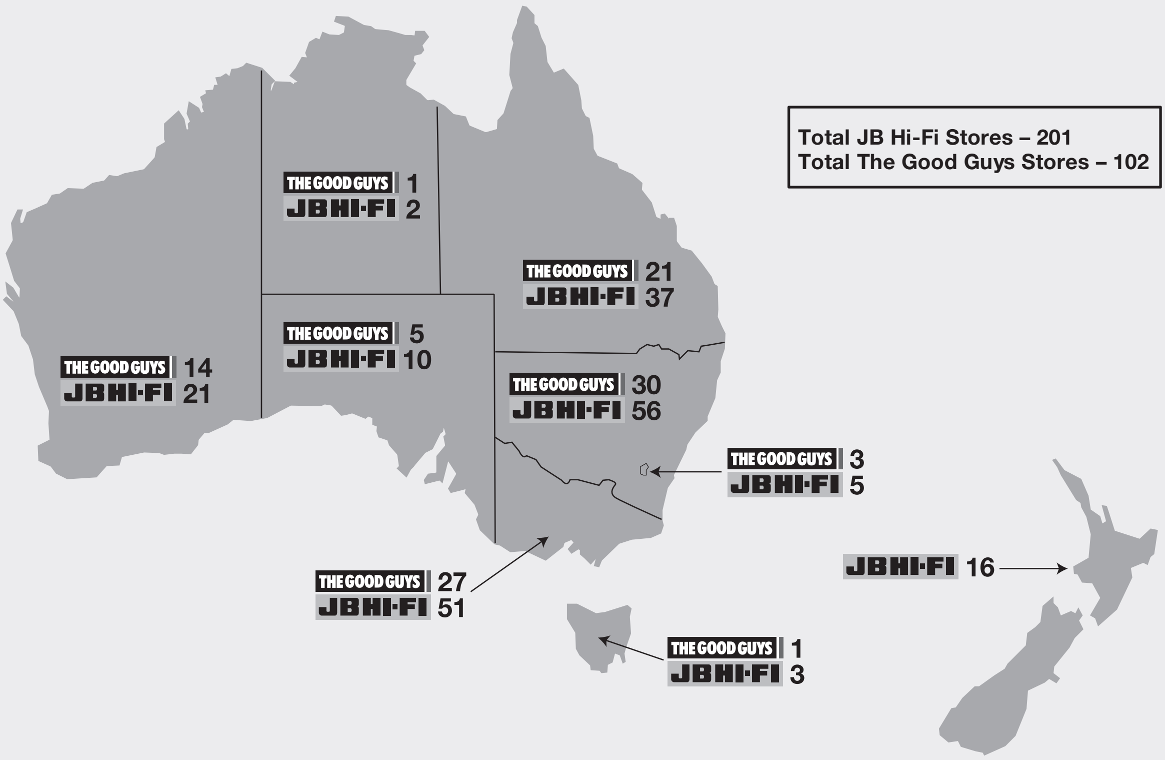
Total creditors increased by $307.9 million to $647.8 million, driven primarily by the consolidation of the creditors of The Good Guys business.

Financial and operating leverage remains low as is evidenced by solid fixed charges cover of 3.2 times (FY2016: 3.5 times) and interest cover of 28.8 times (FY2016: 57.3 times). The Company's gearing ratio increased to 1.6 (FY2016: 0.4), largely as a result of the term debt drawn down to fund the acquisition of The Good Guys.

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 2017 are set out below.



In Australia, 6 new JB Hi-Fi stores were opened in FY2017. One new JB Hi-Fi store was opened in New Zealand during FY2017.

Three new The Good Guys stores were opened (2 prior to the acquisition of The Good Guys by the Group) and 2 The Good Guys stores were closed during FY2017.

In FY2018, the Group expects to open 5 new JB Hi-Fi stores. The Group continues to monitor opportunities for the roll-out of further The Good Guys stores.

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

The Group's commercial, insurance and education business, JB Hi-Fi Solutions, comprises:

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

The business continued to grow in FY2017 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 . The Good Guys Commercial division, which is in its early stages of development , has recently joined the broader JB Hi-Fi Solutions team.

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 FY2017.

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 a decline in sales and profitability. The Group 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 ranked 3rd in the 2017 Corporate Reputation Index released by AMR and the Reputation Institute (1st in 2014 and 2016, 3rd in 2012, 2013 and 2015), whilst The Good Guys business was awarded the Roy Morgan Customer Satisfaction Award for Furniture/Electrical store of the year for the fifth time in six years in February 2017. 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;
  - 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 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. 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 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.
- Digitisation of physical software leading to a fall in traditional software sales – the JB Hi-Fi business will maintain a software presence in store while the category is still providing solid returns.
- Failure to maintain key supplier relationships – a failure to maintain key supplier relationships could adversely impact on the Group's operating and financial performance. However, the Group has significant supplier management processes to mitigate this risk and, whilst at any one time certain products and suppliers are more important than others, the large and diverse range of products stocked by the JB Hi-Fi and The Good Guys 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. The Group has developed a detailed integration plan for the businesses where appropriate, and has recently appointed a new Managing Director to The Good Guys business.
- Transition of some of The Good Guys stores to a wholly-owned corporate model which were previously operated under a joint venture structure – this transition may cause a decline in earnings performance of these The Good Guys stores. The Good Guys business has implemented a transition plan to mitigate the impact of the transition on these stores.
- 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 14.2% over the past 5 years to 30 June 2017), 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.
- Price deflation – this has always been a feature of consumer electronics retail but has mostly been mitigated by increased volumes and technological advancements.
- 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.

- Changes in regulatory environment – changes in the regulatory environment in which the Group operates may increase compliance costs, and even (in extreme cases) affect the ability of the Group to sell certain types of products and services or conduct certain activities. Whilst such changes are outside the control of the Group, the Group monitors proposed changes in the regulatory environment so that it can assess the impact of such changes and develop appropriate response strategies where possible.
- Finance – inability to access financing facilities. Details of the Group's financing facilities are set out on page 25.
- 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.

Strategies to drive growth

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

- continued roll-out of stores in Australia and New Zealand with a pipeline of new properties which will continue to deliver in excess of their cost of capital. Shorter lease terms will be considered where appropriate to provide flexibility;
- 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 will continue to drive new and replacement sales;
- realisation of synergies and efficiencies from the acquisition of The Good Guys;
- focus on growing gross profit dollars and maintaining gross margin, but not at the expense of sales;
- continued development of the Group's websites, aimed at enhancing the user experience across multiple platforms (e.g. computer, tablet & phone) to drive continued growth in online sales;
- expansion of the online product range and depth beyond that which is practical in store;
- significant opportunities to grow JB Hi-Fi Solutions and expand into new markets;
- improved supply chain and logistics systems to support the Group's expansion; and
- continued mitigation of the business risks faced by the Group detailed on pages 27 to 29.

TRADING OUTLOOK– as at 14 August 2017

July 2017 sales update

- total sales growth for the JB Hi-Fi business in July 2017 was 8.8% (July 2016: 13.4%) with comparable sales growth of 5.8% (July 2016: +9.5%); and
- total sales growth for The Good Guys business in July 2017 was 6.8% with comparable sales growth of 5.7%.

FY2018 Guidance

In FY2018 the Group expects:

- to open 5 new JB Hi-Fi stores and to continue to monitor opportunities for new The Good Guys stores; and
- total sales to be circa $6.8 billion (JB Hi-Fi: $4.65 billion and The Good Guys: $2.15 billion).

CONTENTS

SUMMARY

Remuneration Overview

The Board recognises that the performance of the Group depends on the quality and motivation of its people, including both the Group executives (being those persons listed as Group executives on page 32) and the approximately 11,800 employees of the Group across Australia and New Zealand. The Company's remuneration strategy seeks to appropriately reward, incentivise and retain key employees. The Board aims to achieve this by setting competitive remuneration packages that include a mix of fixed remuneration and short and long-term incentives ("packages").

Snapshot – FY2017 Remuneration

The 2017 financial year has been a successful year for the Group, with the Group having successfully completed the acquisition of The Good Guys and management having delivered record revenue, EBIT and EPS. These achievements have been reflected in FY2017 executive remuneration.

- **Fixed remuneration and remuneration packages:** Fixed remuneration for Group executives (comprising base salary, motor vehicle allowances and superannuation) increased by between 3.0% (Richard Murray) and 14.3% (Nick Wells). Total remuneration packages increased by between 3.1% (Peter Green) and 14.3% (Nick Wells), the latter reflecting the fact that the Group Chief Financial Officer was promoted on a relatively low remuneration package and that the Board is now starting to bring his remuneration package into line with his peers. Richard Murray's total remuneration package increased by 10.9%, primarily as a result of increased long term incentives, all of which contain 3, 4 and 5 year performance conditions, with fixed remuneration and short term incentives increasing by 3.0%. Remuneration increases were set with reference to external benchmarking and changes of roles and responsibilities during FY2017. Remuneration packages for Richard Murray and Nick Wells remained significantly lower than the FY2014 remuneration packages for their predecessors.
- **Short term incentive:** The Company's short term incentive plan rewards performance against both financial and non-financial measures. For FY2017, all STI performance conditions were achieved, resulting in 100% of the available short term incentive ("STI") being payable to each Group executive. The Board notes that this is the first year in which 100% of available STIs will be paid to all Group executives since FY2009. 20% of the short term incentive earned by each Group executive for FY2017 is "deferred" and issued in shares which are subject to a restriction on sale/disposal for 1 year after issue (up from 10% in FY2016).
- **Long-term incentives**: All long-term incentives ("LTI") issued to Group executives in FY2017 are in the form of zero exercise price options and are subject to both service and performance based conditions. Some of the options issued to Group executives in previous years vested in FY2017.
- **Fees for Non-Executive Directors**: Fees for non-executive directors were increased from the levels set in FY2015 to take account of inflation.

2018 Remuneration Packages – Key Changes

In setting FY2018 Group executive remuneration packages, the Company has decided to make the following changes:

- **FY2018 remuneration packages:** The Group's executive remuneration packages will be more heavily geared towards "at risk" remuneration (long and short term incentives) and less toward fixed remuneration than their FY2017 remuneration packages.
- **Increased STI performance hurdles:** As a result of a number of one-off expenses in FY2017, relating to the transaction and implementation costs associated with The Good Guys acquisition and the impairment of fixed assets and goodwill of the New Zealand business, statutory EBIT in FY2017 was lower than underlying operating EBIT. As the Board uses statutory EBIT to measure performance, higher performance hurdles for the Group quantitative element of executive STI will apply for FY2018 being 23% - 34% statutory EBIT growth (compared to 0% - 10% for the FY2017 STI). These hurdles are equivalent to 0% - 10% growth from FY2017 underlying EBIT (adjusted to include a full 12 months of The Good Guys' earnings) and are consistent with STI hurdles in recent years.
- **Increased LTI performance hurdles:** For the same reasons, higher performance hurdles for LTI will apply being 9% - 15% compound annual statutory EPS growth (compared to 4% - 8% for the FY2017 LTI grant). These hurdles are equivalent to approximately 5% - 10% compound annual underlying EPS growth, an increase from the hurdles of 4% - 8% compound annual growth applying to the FY2017 LTI grant.
- **Revised vesting schedule for LTI:** LTI granted in FY2018 will vest a half each on the third and fourth anniversary of grant (compared to the FY2017 grant which vest a third each on the third, fourth and fifth anniversary of grant).

Further detail is provided on page 39 of this Report.

The Board recognises the need to remain competitive in the market in order to continue to attract and retain talented directors and has therefore decided to increase non-executive director fees for the 2018 financial year. Further detail is provided on page 42 of this Report.

GROUP EXECUTIVE REMUNERATION FOR FY2017

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 (Merchandise Director prior to 27 October 2016)
Terry Smart	Managing Director – The Good Guys (from 18 April 2017)
Nick Wells	Chief Financial Officer
Tim Carter	Supply Chain & JB Hi-Fi Solutions Director
James Saretta	Strategy & Digital Director
Peter Green	Operations Director – JB Hi-Fi (ongoing JB Hi-Fi executive but member of key management personnel for reporting purposes from 1 July 2016 to 27 November 2016)
Simon Page	Chief Information Officer – JB Hi-Fi (ongoing JB Hi-Fi executive but member of key management personnel for reporting purposes from 1 July 2016 to 27 November 2016)
Michael Ford	Chief Executive Officer – The Good Guys (from 28 November 2016 to 28 April 2017)

As a result of a change in the structure and designation of key management personnel of the Group following the Group's acquisition of The Good Guys, the roles of Operations Director – JB Hi-Fi and Chief Information Officer – JB Hi-Fi were no longer classified as key management personnel of the Group for reporting purposes from 28 November 2016 onwards.

Group executive remuneration policy – 2017 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 FY2017 remuneration packages, the Board and the Remuneration Committee considered a number of factors, including benchmarking analysis and current market practice.

Remuneration packages for Richard Murray (Group CEO) and Nick Wells (CFO) remained lower than the FY2014 packages for their predecessors in these roles, partly as a result of the relatively low packages for these executives when they were appointed in 2014 which allowed scope for increases as the executives gained experience and performed in these roles. A similar approach was adopted in setting a remuneration package for Tim Carter (Supply Chain & JB Hi-Fi Solutions Director) who joined the Group as Online & Commercial Director in September 2014. The remuneration package for Cameron Trainor increased as a result of his appointment as Managing Director of the JB Hi-Fi business following the Group's acquisition of The Good Guys business.

The Remuneration Committee also considers current market conventions with regard to the splits between fixed, short-term and long-term incentive elements. The splits for FY2017 were as follows, reflecting higher weighting towards LTI for the Group CEO than in previous years:

Executive	*Fixed*	*STI*	*LTI*	*Total*
R. Murray	36%	28%	36%	100%
C. Trainor	44%	30%	26%	100%
T. Smart	37%	36%	27%	100%
N. Wells, T. Carter, J. Saretta, P. Green, S. Page	46%	27%	27%	100%
M. Ford	43%	32%	25%	100%

Further details on each of the key elements of Group executive remuneration for the 2017 financial year are set out below.

Fixed Remuneration

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

Short-term Incentive

For FY2017 20% of the short term incentive earned by each Group executive is "deferred" so that the executive receives 80% of the FY2017 STI to which they are entitled in cash, and the remaining 20% in shares which are subject to a restriction on sale/disposal for 1 year after issue. This represents an increase in the deferred element from FY2016 STIs (10% deferred). Further detail is set out below.

- the number of shares granted to the executive will be calculated on the basis of the volume weighted average share price for the Company's shares in the ten days following the release of the Company's FY2017 results to the ASX;
- these shares are held on trust for the executive in the Company's employee share trust and are subject to restrictions meaning that the executive cannot sell or otherwise dispose of them for 1 year following the release of the Company's FY2017 results to the ASX (and, after that, may only sell or dispose of them in accordance with the Company's Securities Trading Policy);
- during this restricted period the executive receives the dividends on the shares and is able to exercise the votes attached to those shares; and
- the Board has the discretion to release the restrictions on disposal early only in exceptional circumstances and if certain additional criteria are satisfied.

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

Quantitative Bonus – Group EBIT performance

The Group quantitative element of executives' STIs in FY2017 was based on the following criteria:

- if FY2017 statutory EBIT was more than FY2016 statutory EBIT then the STI would apply. No part of the STI would be paid if FY2017 statutory EBIT was the same as, or less than, FY2016 statutory EBIT;
- if FY2017 statutory EBIT was equal to, or exceeded, 110% of FY2016 statutory EBIT then 100% of this element would be paid; and
- payment of STIs between these two benchmarks would be on a linear basis.

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

Given FY2017 statutory EBIT was 121.2% of FY2016 statutory EBIT, 100% of the available Quantitative Bonus (Group EBIT performance) is payable to Group executives for FY2017.

This level of vesting based on statutory EBIT was achieved notwithstanding only 7 months of earnings from The Good Guys business (acquired on 28 November 2016) being included in the FY2017 EBIT figure and significant one-off transaction and implementation costs relating to the acquisition of The Good Guys business and the New Zealand impairment charges reducing statutory EBIT.

If EBIT growth from FY2016 to FY2017 had been measured excluding the performance of The Good Guys business and the transaction costs (i.e. based upon the ongoing JB Hi-Fi business, including New Zealand impairment charges) then the 110% growth target would still have been exceeded, resulting in 100% achievement of this element of the STI.

Quantitative Bonus – Individual performance

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

Qualitative Bonus – Individual performance

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

Details of STI available by executive

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

Notes:

1. T. Smart joined the Company on 18 April 2017 and, as less than 3 months of FY2017 remained at this time, the Board and Remuneration Committee determined that, for FY2017 only, no part of his STI was dependent upon Group quantitative criteria or individual quantitative criteria. Instead 100% of T. Smart's FY2017 STI was dependent on individual qualitative criteria. It is intended that, for FY2018, T. Smart's STI is structured in the same way as for other executives.
2. No information is included for M. Ford as he did not receive any FY2017 STI having left the Company on 28 April 2017.

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

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

Details of STI achieved per executive

Each Group executive's performance has been measured against the applicable targets. The resulting percentage of each element of STI actually achieved for the 2017 financial year is detailed in the following table:

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

Notes:

1. T. Smart joined the Company on 18 April 2017 and, as less than 3 months of FY2017 remained at this time, the Board and Remuneration Committee determined that, for FY2017 only, no part of his STI was dependent upon Group quantitative criteria or individual quantitative criteria. Instead 100% of T. Smart's FY2017 STI was dependent on individual qualitative criteria. It is intended that, for FY2018, T. Smart's STI is structured in the same way as for other executives.
2. No information is included for M. Ford as he did not receive any FY2017 STI having left the Group on 28 April 2017.

The Board notes that this is the first year in which 100% of available STIs were paid to all executives since FY2009 and reflects the strong performance of the Company.

Long-Term Incentive ("LTI") Plan

Some of the options granted to executives prior to FY2017 vested in FY2017. Details of options that vested and were exercised are set out on page 50.

Form of FY2017 Executive LTIs

As was the case in FY2016, all Group executive LTIs granted for FY2017 were in the form of share options with zero exercise prices, with EPS based performance hurdles and a service based vesting condition ("Zepos"). The service based vesting condition provides that one third of these options will vest on each of the 3rd, 4th and 5th anniversary of issue provided that all other vesting conditions are satisfied. The Group believed that this vesting period appropriately aligned the LTIs with longer term performance. Each option expires 6 years after the grant date.

Details of the EPS based performance hurdles are set out below.

LTI Performance Hurdles for FY2017 Executive LTIs

The EPS performance hurdles referred to above require compound annual EPS growth from the statutory FY2016 EPS base of 153.76 cents per share of between 4% and 8% per annum as set out below:

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

The Board considers this equity performance linked remuneration structure is effective in aligning the long-term interests of executives and shareholders and, at the time of setting the FY2017 performance hurdles (prior to the acquisition of The Good Guys business), the Board considered both consensus forecasts and the earnings outlook for the Company. In setting FY2018 LTI performance hurdles the targets have been increased to take account of the acquisition of The Good Guys business, as set out on page 40.

Further Information on LTIs

The issue of options for FY2017 to Richard Murray, the executive director of the Company, was approved by shareholders at the Company's Annual General Meeting in October 2016.

Further details of the terms of these options, including service and share price conditions are included under the heading "Group share option plans" on page 52.

Relationship between financial performance and remuneration

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

The financial performance of the Group is summarised in the table below, whilst the alignment of executive remuneration to the performance of the Group is detailed in the graph on page 37.

							Growth	
		FY2013	*FY2014*	*FY2015*	*FY2016*	*FY2017*	*FY2017*	*Last 5 years*[iii]
1.	Financial performance:							
	Sales ($m)	3,308.4	3,483.8	3,625.1	3,954.5	5,628.0	42%	12%
	EBIT ($m)	177.8	191.1	200.9	221.2	290.5[v]	31%	12%
	Net profit attributable to owners of the Company ($m)	116.4	128.4	136.5	152.2	192.2[v]	26%	13%
	Basic EPS (cents)	117.7	128.4	137.9	153.8	172.1[v]	12%	10%
2.	Shareholder value created:							
	Company share price at the end of the reporting period ($)	16.81	18.30	19.48	24.10	23.37	(3%)	21%
	Market capitalisation ($m)	1,663.3	1,810.7	1,928.3	2,384.6	2,674.0	12%	25%
	Enterprise value[i] ($m)	1,720.3	1,946.9	2,018.7	2,442.5	3,160.0	29%	26%
	Movement in enterprise value during the financial year ($m)	734.4	226.7	71.7	423.8	717.5		
	Dividends paid to shareholders during the financial year ($m)	65.3	77.2	87.2	93.2	191.1		
	On market share buy-back ($m)	–	25.8	5.0	13.2	–		
	Shareholder value created[ii]							
	- per annum ($m)	799.7	329.7	163.9	530.2	836.6		
	- cumulative ($m) since IPO	2,067.7	2,397.4	2,561.2	3,091.4	3,928.1	27%	25%[iv]

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

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

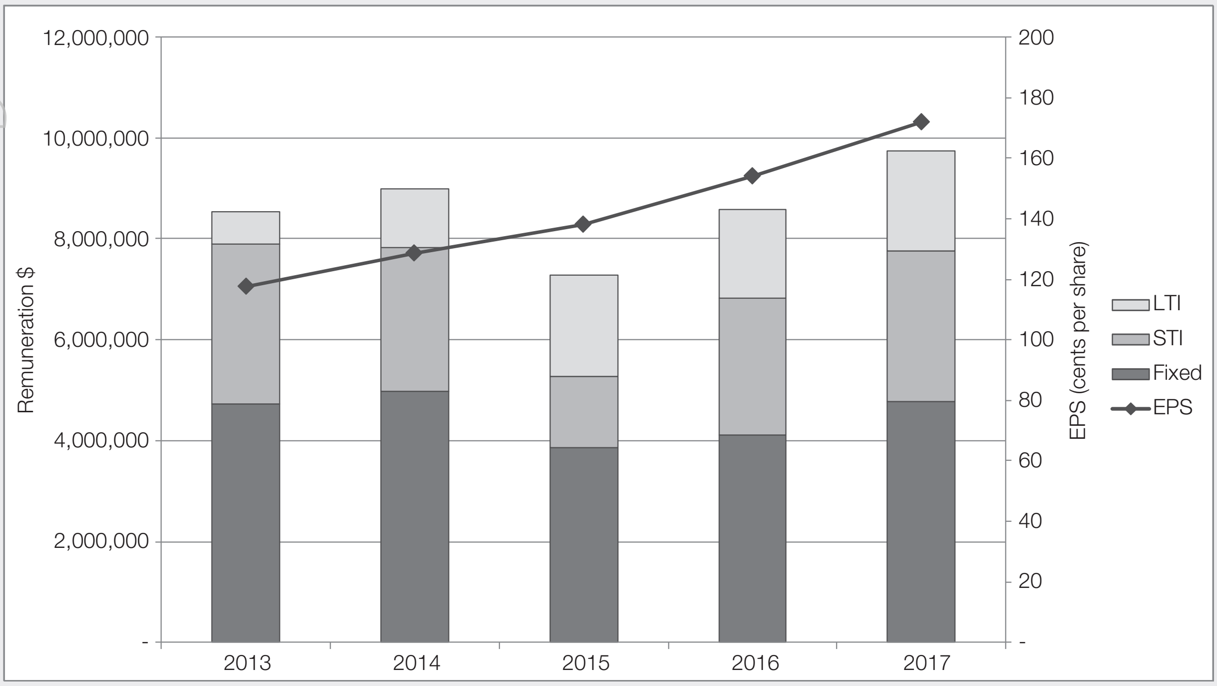
(iii) Percentage movement shown is the compound annual growth rate over the last 5 years.

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

(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.

Executive remuneration and EPS over the last 5 financial years:



Notes

1. The graph shows the aggregate total of remuneration for the Company's executive team for each year from 2013 to 2017, excluding payments made in relation to departures from the Company. The number of executives engaged during each of these years varied.
2. LTI expense is the current period LTI expense only, excluding any prior period write-backs.
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.

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 2017. The JB Hi-Fi closing share price compound annual growth rate between listing and 1 August 2017 is 21.9%, whilst the ASX 200 compound annual growth rate over the same period is 4.1%.

Key terms of executive employment agreements

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

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

Each executive may be terminated immediately for serious misconduct.

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

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

GROUP EXECUTIVE REMUNERATION FOR FY2018 – KEY CHANGES

The Remuneration Committee and the Board regularly review the Group's remuneration practices to ensure that they remain fit for purpose, appropriate for the Group's operating environment, aligned with evolving market trends and shareholder expectations, and continue to reward, incentivise and retain key employees. As a result of its recent review, the Group has decided to make the following changes to the remuneration framework for FY2018.

Group Executive Remuneration Packages

The mix of the remuneration packages for the majority of Group executives will be less heavily geared towards fixed remuneration (compared to short term incentives and long term incentives) with the splits between fixed, short-term and long-term incentive elements for FY2018, compared to FY2017, being as follows:

	FY2018			FY2017		
	Fixed	*STI*	*LTI*	*Fixed*	*STI*	*LTI*
R. Murray	33.3%	33.3%	33.3%	36%	28%	36%
C. Trainor	40%	30%	30%	44%	30%	26%
T. Smart	37%	36%	27%	37%	36%	27%
N. Wells	40%	30%	30%	46%	27%	27%
T. Carter	42%	32%	26%	46%	27%	27%
J. Saretta	42%	32%	26%	46%	27%	27%

Increased STI performance hurdles for FY2018

The hurdles for the Group quantitative element of executives' STIs in FY2018 will be increased and based on the following criteria:

- if statutory FY2018 EBIT exceeds 123% of statutory FY2017 EBIT then the STI would apply. No part of the STI would be paid if statutory FY2018 EBIT matches, or is less than, 123% of statutory FY2017 EBIT;
- if statutory FY2018 EBIT was equal to, or exceeded, 134% of statutory FY2017 EBIT then 100% of this element of the STI would be paid; and
- payment of STIs between these two benchmarks would be on a linear basis.

In setting these increased performance hurdles the Board has taken into account the fact that FY2017 statutory EBIT included significant one-off transaction and implementation costs relating to the acquisition of The Good Guys and New Zealand fixed asset and goodwill impairments. These hurdles are equivalent to the Company's traditional STI growth targets (0% - 10% growth) when calculated based on underlying EBIT for FY2017 (adjusted for a full 12 months of The Good Guys' earnings). The Board believes that it is appropriate to continue to use statutory EBIT to judge STI performance (rather than underlying EBIT) and believe these higher hurdles are appropriately challenging in light of both underlying consensus forecasts and the earnings outlook for the Group.

As for FY2017 STIs, 20% of earned STI will be paid in the form of deferred shares.

Revised LTI vesting schedule for FY2018

FY2018 LTIs for executives will vest one half each three and four years after grant, provided that all other vesting conditions are satisfied, rather than one third each on the third, fourth and fifth anniversary of grant, as is the case for FY2017 LTIs.
The Remuneration Committee and the Board note the difficulty in setting performance targets five years in advance in a dynamic retail environment. The Board therefore believes a maximum 4 year vesting period to be appropriate. This change will also result in changes to the retesting of LTIs, with only the half of FY2018 LTIs scheduled to vest 3 years after grant being eligible for retesting (unlike FY2017 LTIs where the one third scheduled to vest 3 years after grant and the one third scheduled to vest 4 years after grant are both eligible for retesting). FY2018 LTIs will expire 5 years after grant (as opposed to 6 years after grant for FY2017 LTIs).

The Company continues to believe that retesting is appropriate as the retesting is done against a cumulative EPS figure. This means that, if the target is missed in one period, it is compounded and retested in the next period.

Increased LTI performance hurdles for FY2018

As indicated previously, statutory EPS for FY2017 included significant one-off transaction and implementation costs relating to the acquisition of The Good Guys and New Zealand fixed asset and goodwill impairments. As a result, FY2017 statutory EPS is lower than FY2017 underlying EPS (i.e. excluding these one-off charges). The Board believes statutory EPS to be the best basis to set performance targets (as there are no exclusions). Rather than changing the way performance is measured, the Board has set higher growth targets for the performance hurdles applicable for FY2018 LTIs. The performance hurdles for FY2018 LTIs for executives will require compound annual statutory EPS growth of between 9% and 15% as follows:

- 50% of LTIs vest if compound annual statutory EPS growth of at least 9% is achieved;
- 100% of LTIs vest if compound annual statutory EPS growth of at least 15% is achieved; and
- LTIs will vest on a linear basis between these two benchmarks.

These hurdles are equivalent to approximately 5% - 10% compound annual underlying EPS growth, an increase from the hurdles of 4% - 8% compound annual growth applying to the FY2017 LTI grant The Board believes that these increased hurdles are appropriately challenging in light of both underlying consensus forecasts and the earnings outlook for the Group.

Testing of LTIs in FY2018

In accordance with its usual practice, in August 2017 following the release of the Company's FY2017 results, the Company will test whether performance hurdles for long term incentives issued to executives in previous years (FY2013, FY2014 and FY2015) have been achieved. The Board has taken the decision to exclude one-off transaction and implementation costs associated with the acquisition of The Good Guys, expensed in FY2017, from the calculation of EPS for the purpose of determining LTI vesting as, while these costs are being expensed in FY2017, the EPS does not reflect a full year of The Good Guys' earnings. While not adjusting for these transaction and implementation costs would have resulted in just under full vesting, the Board considers that the EPS growth, excluding these costs, of greater than 10% compound annual growth in EPS over the applicable performance periods, is a strong result for shareholders and one that should be fairly rewarded (and not reduced by one-off transaction costs that have been incurred before the Company has recognised the benefit of the transaction). No adjustment will be made to exclude New Zealand impairment charges.

NON-EXECUTIVE DIRECTOR REMUNERATION

FY2017 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 (from 25 August 2016) and Member of the Audit and Risk Management Committee (from 29 August 2016)
Beth Laughton	Non-executive Director, Chair of the Audit and Risk Management Committee and Member of the Remuneration Committee
Mark Powell	Non-executive Director (from 13 March 2017) and Member of the Audit and Risk Management Committee (from 13 March 2017)
Wai Tang	Non-executive Director, Member of the Audit and Risk Management Committee and (from 26 October 2016) the Remuneration Committee
Richard Uechtritz	Non-executive Director
Gary Levin	Non-executive Director (until 27 October 2016), Member of the Audit and Risk Management Committee and the Remuneration Committee (until 27 October 2016)

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

The remuneration packages for non-executive directors for FY2017 are set out below and increased to take account of inflation since they were last increased in FY2015. Aggregate non-executive director remuneration for FY2017 remained within the amount determined by the Company in its Annual General Meeting on 12 October 2011 being $1,250,000.

Role	*Fees 2017 $*	*Fees 2016 $*
Chairman	$278,000	$270,000
Non-executive director	$134,000	$130,000
Additional Committee Fees		
Remuneration Committee Chairman	$21,000	$20,000
Audit and Risk Management Committee Chairman	$29,000	$28,000
Audit and Risk Management Committee member	$14,000	$14,000
Remuneration Committee member	$12,000	$12,000

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

It is the policy of the Company 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.

FY2018 Non-Executive Director Remuneration

The Board recognises the need to remain competitive in the market in order to continue to attract and retain talented directors. As detailed below, 3 degrees consulting was engaged to provide a remuneration recommendation regarding the level of fees paid to non-executive directors and in accordance with this Remuneration Recommendation fees will be increased in FY2018 as set out below. In setting the revised fees, the Board noted:

- the increased scale of the Group's operations following the acquisition of The Good Guys business;
- the Chairman's and committees' workloads; and
- benchmarking against comparable companies.

Role	*Fees 2018 $*	*Fees 2017 $*
Chairman	$300,000	$278,000
Non-executive director	$134,000	$134,000
Additional Committee Fees		
Remuneration Committee Chairman	$25,000	$21,000
Audit and Risk Management Committee Chairman	$32,000	$29,000
Audit and Risk Management Committee member	$16,000	$14,000
Remuneration Committee member	$14,000	$12,000

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

3 degrees consulting was engaged to provide remuneration recommendations in accordance with the provisions of the *Corporations Act 2001* and was paid $25,000 (excluding GST) for remuneration recommendations regarding the level of fees paid to non-executive directors. 3 degrees consulting 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 3 degrees consulting and receipt of its recommendations, the Board is satisfied that each of the recommendations were free of undue influence by such persons.

In addition to the above, 3 degrees consulting was engaged to provide broad ranging services including the provision of other market data, stakeholder communication, governance, leadership and other remuneration related services and was paid $166,050 (excluding GST) for these services.

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 Chairman before altering the economic benefit or risk derived by them in relation to any shares or options in JB Hi-Fi held by them. Each year directors and executives are required to sign a declaration that they are in compliance with all elements of the JB Hi-Fi Securities Trading Policy. These declarations have been received in relation to the 2017 financial year from all directors and executives.

KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel for FY2017 include the non-executive directors and the nine identified executives. The aggregate compensation of the key management personnel of the Group for FY2017 is set out below:

	Consolidated	
	2017 $	*2016* $
Short-term employee benefits		
Salary and fees	5,251,624	4,576,983
Bonus	2,969,454	2,728,903
Other	643,860	397,434
	8,864,938	7,703,320
Post-employment benefits		
Superannuation	278,412	284,502
	278,412	284,502
Share based payments		
Options expense	1,978,385	1,751,681
	1,978,385	1,751,681
	11,121,735	9,739,503

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	
	Salary & fees	*Bonus[iii]*	*Other[iv]*	*Total short-term employee benefits*	*Super-annuation*	*Options[ii][iii]*	*Total*
2017[i]	$	$	$	$	$	$	$
Non-executive directors							
G. Richards	279,384	–	–	279,384	19,616	–	299,000
B. Laughton	159,817	–	–	159,817	15,183	–	175,000
G. Levin	45,000	–	–	45,000	8,333	–	53,333
W. Tang	142,640	–	–	142,640	13,551	–	156,191
R. Uechtritz	122,374	–	–	122,374	11,626	–	134,000
S. Goddard	115,232	–	–	115,232	10,947	–	126,179
M. Powell	41,136	–	–	41,136	3,908	–	45,044
	905,583	–	–	905,583	83,164	–	988,747
Executives							
R. Murray	1,177,259	988,800	28,187	2,194,246	30,000	830,462	3,054,708
C. Trainor	859,072	650,000	33,000	1,542,072	35,000	395,118	1,972,190
T. Smart	160,834	211,538	5,769	378,141	4,904	133,375	516,420
P. Green	223,962	147,231	8,462	379,655	12,692	113,613	505,960
N. Wells	429,077	288,000	120,000	837,077	30,000	191,370	1,058,447
T. Carter	429,308	288,000	20,000	737,308	30,000	185,950	953,258
S. Page	158,289	107,885	8,442	274,616	12,844	51,044	338,504
J. Saretta	430,000	288,000	20,000	738,000	30,000	77,453	845,453
M. Ford	478,240	–	400,000	878,240	9,808	–	888,048
	4,346,041	2,969,454	643,860	7,959,355	195,248	1,978,385	10,132,988
	5,251,624	2,969,454	643,860	8,864,938	278,412	1,978,385	11,121,735

(i) S. Goddard joined the Board as a Non-Executive Director on 25 August 2016 and M. Powell joined the Board as a Non-Executive Director on 13 March 2017. G. Levin retired as a Non-Executive Director on 27 October 2016. T. Smart joined the Company on 18 April 2017. As a result of a change in the structure and designation of key management personnel of the Group following the acquisition of The Good Guys, P. Green and S. Page were no longer classified as key management personnel from 28 November 2016 onwards, even though they continued in their prior roles as employees of the Group. Amounts disclosed for P. Green and S. Page are for the period that P. Green and S. Page were classified as key management personnel (1 July 2016 to 27 November 2016). Amounts disclosed for M. Ford are for the period he was employed by the Group 28 November 2016 to 28 April 2017).

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

(iii) Performance based.

(iv) For M. Ford, the amount in the "Other" column comprises $400,000 paid in relation to his departure from the Group on 28 April 2017. For N. Wells, the amount in the "Other" column comprises $100,000 bonus paid in relation to the acquisition of The Good Guys, and a $20,000 car allowance. For all other executives, the amount shown in this column is comprised entirely of car allowances.

2017[i][ii]	Performance based – Short-term employee benefits – Maximum Potential STI – Bonus $	% of total potential remuneration	Actual STI – Bonus $	% of total actual remuneration	Share based payments – Maximum Potential LTI – Options $	% of total potential remuneration	Actual LTI – Options $	% of total actual remuneration
Executives								
R. Murray	988,800	32%	988,800	32%	830,462	27%	830,462	27%
C. Trainor	650,000	33%	650,000	33%	395,118	20%	395,118	20%
T. Smart	211,538	41%	211,538	41%	133,375	26%	133,375	26%
P. Green	147,231	29%	147,231	29%	113,613	22%	113,613	22%
N. Wells	288,000	30%	288,000	27%	191,370	20%	191,370	18%
T. Carter	288,000	30%	288,000	30%	185,950	19%	185,950	19%
S. Page	107,885	32%	107,885	32%	51,044	15%	51,044	15%
J. Saretta	288,000	34%	288,000	34%	77,453	9%	77,453	9%
	2,969,454	30%	2,969,454	32%	1,978,385	21%	1,978,385	21%

(i) No information is included for M. Ford as he did not receive any FY2017 STI or LTI having left the Company on 28 April 2017. Should M. Ford have not left the Company, his maximum potential STI and LTI would have been $862,000 and $448,777.

(ii) The amounts disclosed for P. Green and S. Page are pro-rata for the period that P. Green and S. Page were classified as key management personnel (1 July 2016 to 27 November 2016). The maximum potential STI for T Smart represents the amount available for the period during FY2017 in which he was employed (from 18 April 2017).

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

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

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

(iii) Performance based.

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

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

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

All bonuses are paid in the financial year following the year in which they were earned, for example the 2017 financial year bonuses are paid in August 2017 (the 2018 financial year).

KEY MANAGEMENT PERSONNEL EQUITY/OPTIONS

Fully paid ordinary shares of JB Hi-Fi Limited

2017[i,ii]	*Balance at 1 July 2016 No.*	*Granted as compensation[iii] No.*	*Received on exercise of options No.*	*Net other change No.*	*Balance at 30 June 2017 No.*	*Balance held nominally No.*
G. Richards	23,000	–	–	3,486	26,486	3,455
B. Laughton	2,000	–	–	304	2,304	–
W. Tang	2,000	–	–	1,700	3,700	–
R. Uechtritz	10,000	–	–	1,516	11,516	–
S. Goddard	–	–	–	1,500	1,500	–
M. Powell	–	–	–	–	–	–
R. Murray	102,000	3,268	65,912	(65,608)	105,572	–
C. Trainor	–	2,188	90,215	(82,333)	10,070	–
T. Smart	–	–	–	50,000	50,000	–
P. Green	2,092	1,123	49,568	(47,434)	5,349	–
N. Wells	4,483	858	4,483	1,490	11,314	–
T. Carter	–	888	–	–	888	–
S. Page	–	800	–	122	922	–
J. Saretta	–	163	–	–	163	–
	145,575	9,288	210,178	(135,257)	229,784	3,455

(i) G. Levin ceased to be a non-executive director on 27 October 2016 and, at this time, held 30,000 shares in the Company. G. Levin had no transactions with ordinary shares during the period in FY2017 in which he was a director.

(ii) M. Ford left the Company on 28 April 2017 and, at this time, held no shares or options in the Company. During the period of his employment, M. Ford had no transactions with ordinary shares.

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

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

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

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

Share options of JB Hi-Fi Limited

2017[i]	*Balance at 1 July 2016 No.*	*Granted as compensation[ii] No.*	*Exercised No.*	*Net other change[iii] No.*	*Balance at 30 June 2017 No.*	*Balance vested at 30 June 2017 No.*	*Options vested during year No.*
R. Murray	413,444	48,096	(65,912)	(73,523)	322,105	–	65,912
C. Trainor	328,089	18,079	(90,215)	(73,523)	182,430	–	90,215
T. Smart	–	106,312	–	–	106,312	–	–
P. Green	188,145	13,541	(49,568)	(37,844)	114,274	–	49,568
N. Wells	53,202	11,206	(4,483)	–	59,925	–	4,483
T. Carter	56,356	11,206	–	–	67,562	–	–
S. Page	16,438	9,922	–	–	26,360	–	–
J. Saretta	2,640	11,206	–	–	13,846	–	–
	1,058,314	229,568	(210,178)	(184,890)	892,814	–	210,178

(i) M. Ford left the Company on 28 April 2017. During the period to 28 April 2017, M. Ford was granted 77,825 options and did not exercise any options. Prior to his departure, M. Ford held 77,825 unvested options, all of which lapsed on his departure.

(ii) Excludes any options that may be granted by the Board in August 2017. The issue of any such options to R. Murray, executive director of the Company, is also subject to shareholder approval at the Company's Annual General Meeting in October 2017.

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

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

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

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

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

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

During the financial year 66,233 zero exercise price options (FY2016: 20,947) and 143,945 options with an exercise price (FY2016: 112,815) were exercised by key management personnel. The weighted average exercise price for options with an exercise price was $11.78 (FY2016: $10.13) per ordinary share in JB Hi-Fi Limited.

Key management personnel options granted and exercised during the financial year

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

2017[ii]	Value of options granted – at the grant date[i] $	Value of options exercised – at the exercise date $
R. Murray	1,235,997	1,112,910
C. Trainor	464,605	1,974,036
T. Smart	2,249,986	–
P. Green	347,985	1,065,994
N. Wells	287,979	129,783
T. Carter	287,979	–
S. Page	254,982	–
J. Saretta	287,979	–
	5,417,492	4,282,723

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

(ii) M. Ford left the Company on 28 April 2017. During the period to 28 April 2017, M. Ford was granted options with a value of $1,999,987 and did not exercise any options. The options granted to M. Ford lapsed on his departure.

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

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

Options granted during the financial year

During the financial year, an aggregate of 229,568 share options over ordinary shares in JB Hi-Fi Limited were granted to the identified key management personnel.

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

Executive[v]	Series	Grant date (GD)	Number of options granted	Exercise price $	Weighted average fair value at GD[i] $	Service based vesting condition (years)[ii]	Expiry Date	Performance condition - cumulative EPS growth per annum[iii]
R. Murray	146-148	22/08/2016	48,096	$0.00	$25.70	3 / 4 / 5	21/08/2022	4%-8%
C. Trainor	146-148	22/08/2016	18,079	$0.00	$25.70	3 / 4 / 5	21/08/2022	4%-8%
T. Smart[iv]	158-159	18/04/2017	106,312	$0.00	$21.16	3 / 4	17/04/2023	9%-15%
P. Green	146-148	22/08/2016	13,541	$0.00	$25.70	3 / 4 / 5	21/08/2022	4%-8%
N. Wells	146-148	22/08/2016	11,206	$0.00	$25.70	3 / 4 / 5	21/08/2022	4%-8%
T. Carter	146-148	22/08/2016	11,206	$0.00	$25.70	3 / 4 / 5	21/08/2022	4%-8%
S. Page	146-148	22/08/2016	9,922	$0.00	$25.70	3 / 4 / 5	21/08/2022	4%-8%
J. Saretta	146-148	22/08/2016	11,206	$0.00	$25.70	3 / 4 / 5	21/08/2022	4%-8%
			229,568					

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

(ii) One third of options within each series satisfy the service based vesting condition on the 3rd, 4th and 5th anniversary of grant date, with the exception of the options issued to T. Smart where half of the options satisfy the service based vesting condition on the 3rd and 4th anniversary of the grant date.

(iii) EPS growth is measured following satisfaction of the service based vesting condition. Options vest as follows, except for the options issued to T. Smart:

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

(iv) Options issued to T. Smart in April 2017 contain the revised performance and service based vesting conditions that will apply for all Group executive FY2018 LTI's, and vest, following satisfaction of the service based vesting condition, as follows:

- where compound annual EPS growth of 9% is achieved 50% of the options vest; and
- where compound annual EPS growth is between 9% and 15% the remaining 50% will vest on a linear basis.

(v) M. Ford left the Company on 28 April 2017. During the period to 28 April 2017, M. Ford was granted 77,825 options on the same terms as those in series 146-148, all of which lapsed on his departure.

Options exercised during the financial year

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

	Series	Number of options exercised	Exercise date	Number of shares issued	Exercise price $	Share price at exercise date $	Performance condition – cumulative EPS growth per annum	Performance condition – achieved
R. Murray	80.2	29,941	24/02/2017	29,941	$9.75	$26.32	5%	Yes
	81.1	1,464	23/02/2017	1,464	$9.75	$26.69	5%-10%	Partially[i]
	81.2	12,223	23/02/2017	12,223	$9.75	$26.69	5%-10%	Partially[ii]
	83	231	19/08/2016	231	$0.00	$28.95	5%-10%	Partially[i]
	84	4,716	19/08/2016	4,716	$0.00	$28.95	5%	Yes
	85	1,925	19/08/2016	1,925	$0.00	$28.95	5%-10%	Partially[ii]
	94.1	8,963	23/02/2017	8,963	$18.93	$26.69	5%	Yes
	95.1	3,316	23/02/2017	3,316	$18.93	$26.69	5%-10%	Partially[iii]
	96	2,287	19/08/2016	2,287	$0.00	$28.95	5%	Yes
	97	846	19/08/2016	846	$0.00	$28.95	5%-10%	Partially[iii]
		65,912		65,912				
C. Trainor	80.2	29,941	23/09/2016	29,941	$9.75	$29.31	5%	Yes
	81.1	1,464	23/09/2016	1,464	$9.75	$29.31	5%-10%	Partially[i]
	81.2	12,223	23/09/2016	12,223	$9.75	$29.31	5%-10%	Partially[ii]
	83	231	19/08/2016	231	$0.00	$28.95	5%-10%	Partially[i]
	84	4,716	19/08/2016	4,716	$0.00	$28.95	5%	Yes
	85	1,925	19/08/2016	1,925	$0.00	$28.95	5%-10%	Partially[ii]
	94.1	8,963	23/09/2016	8,963	$18.93	$29.31	5%	Yes
	95.1	3,316	23/09/2016	3,316	$18.93	$29.31	5%-10%	Partially[iii]
	96	3,002	19/08/2016	3,002	$0.00	$28.95	5%	Yes
	97	1,111	19/08/2016	1,111	$0.00	$28.95	5%-10%	Partially[iii]
	102	23,323	19/08/2016	23,323	$0.00	$28.95	n/a[iv]	n/a[iv]
		90,215		90,215				
P. Green	80.2	17,020	23/09/2016	17,020	$9.75	$29.31	5%	Yes
	81.1	833	23/09/2016	833	$9.75	$29.31	5%-10%	Partially[i]
	81.2	6,948	23/09/2016	6,948	$9.75	$29.31	5%-10%	Partially[ii]
	83	131	19/08/2016	131	$0.00	$28.95	5%-10%	Partially[i]
	84	2,681	19/08/2016	2,681	$0.00	$28.95	5%	Yes
	85	1,094	19/08/2016	1,094	$0.00	$28.95	5%-10%	Partially[ii]
	94.1	5,351	23/09/2016	5,351	$18.93	$29.31	5%	Yes
	95.1	1,979	23/09/2016	1,979	$18.93	$29.31	5%-10%	Partially[iii]
	96	1,365	19/08/2016	1,365	$0.00	$28.95	5%	Yes
	97	505	19/08/2016	505	$0.00	$28.95	5%-10%	Partially[iii]
	102	11,661	19/08/2016	11,661	$0.00	$28.95	n/a[iv]	n/a[iv]
		49,568		49,568				
N. Wells	79	3,000	19/08/2016	3,000	$0.00	$28.95	n/a[v]	n/a[v]
	92	1,483	19/08/2016	1,483	$0.00	$28.95	n/a[v]	n/a[v]
		4,483		4,483				
		210,178		210,178				

(i) EPS growth of 9.2% achieved based on FY2015 EPS and therefore 84% of the options in the series vested. Retested EPS growth of 9.8% achieved based on FY2016 EPS and therefore an additional 11% (95% in total) of the options in the series vested.

(ii) EPS growth of 9.8% achieved based on FY2016 EPS and therefore 95% of the options in the series vested.

(iii) EPS growth of 9.3% achieved based on FY2016 EPS and therefore 86% of the options in the series vested.

(iv) Options did not contain a performance condition as they were the one-off retention options issued in July 2014 following the CEO transition.

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

No options issued to T. Smart, T. Carter, S. Page, J. Saretta or M. Ford were exercised during the financial year.

Options lapsed during the financial year

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

Financial Year Issued	Number of options lapsed				
	R. Murray	*C. Trainor*	*P. Green*	*M. Ford*(i)	*Total*
2012	73,523	73,523	37,844	–	184,890
2013	–	–	–	–	–
2014	–	–	–	–	–
2015	–	–	–	–	–
2016	–	–	–	–	–
2017	–	–	–	77,825	77,825
	73,523	73,523	37,844	77,825	262,715

(i) M. Ford options lapsed on his departure from JB Hi-Fi on 28 April 2017.

No options issued to T. Smart, N. Wells, T. Carter, S. Page or J. Saretta lapsed during the financial year.

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

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

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 and FY2017 (inclusive) have the following features. Options to be issued in FY2018 will also have these features except as set out otherwise on pages 39 and 40:

- 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 of the options issued before 30 June 2015 and all options issued after 30 June 2015, a zero exercise price;
- for Group executives only, the majority of options are subject to performance conditions based on EPS growth. To date, options issued have been subject to performance hurdles which require compound annual earnings per share growth of between 4% and 15% per annum;
- service based conditions - the options issued to executives vest a third each on the third, fourth and fifth anniversary of the grant date provided that the executive remains employed at that time. 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. 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 since 1 July 2012 generally expire six years after they are issued. All unvested options generally expire immediately upon termination of employment although, depending upon the terms of issue, the Company may have discretion to allow the options to continue or waive vesting conditions in certain circumstances. Upon termination of employment, vested options either expire upon termination, 30 days after termination or continue in force depending upon the circumstances of the employee's exit and the terms of issue;
- 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, 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;
- each option entitles the holder to one ordinary share in JB Hi-Fi Limited;
- holders of options do not have the right, under the options, to dividends or to participate in any share issue or interest issue of JB Hi-Fi Limited or of any other body corporate or registered scheme;
- upon a change of control of the Company all vested and unvested options will automatically lapse unless the Company determines otherwise; and
- other conditions including, amongst other things, treatment of the options in the event of a capital reorganisation.

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

Shares under option

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

Option series	Number of shares under option	Grant date (GD)	Share Price at GD $	Expiry date	Exercise price $	Weighted average expected volatility[(i)]	Dividend yield at GD	Risk-free interest rate at GD	Weighted average fair value at GD[(i)] $
80-81	112,987	17/08/2012	$9.75	16/08/2018	$9.75	40.37%	6.5%	2.94%	$2.04
83-87	17,799	17/08/2012	$9.75	16/08/2018	$0.00	41.02%	6.5%	2.94%	$7.08
93	50,798	16/08/2013	$18.66	15/08/2018	$0.00	30.88%	3.7%	3.19%	$16.30
94-95	67,872	16/08/2013	$18.66	15/08/2019	$18.93	32.55%	3.7%	3.19%	$4.16
96-101	19,400	16/08/2013	$18.66	15/08/2019	$0.00	34.64%	3.7%	3.19%	$16.02
103-104	191,325	15/08/2014	$17.66	14/08/2020	$17.72	30.74%	4.6%	2.86%	$3.25
105-113	63,321	15/08/2014	$17.66	14/08/2020	$0.00	31.82%	4.6%	2.86%	$14.73
115-116	108,312	15/08/2014	$17.66	14/08/2019	$0.00	32.37%	4.6%	2.86%	$15.07
117-118	31,870	27/11/2014	$15.56	26/11/2020	$15.58	30.94%	5.3%	2.60%	$2.51
119-127	9,494	27/11/2014	$15.56	26/11/2020	$0.00	31.58%	5.3%	2.60%	$12.64
128-130	128,616	14/08/2015	$20.79	13/08/2021	$0.00	30.88%	4.3%	2.16%	$17.43
131-133	167,413	14/08/2015	$20.79	13/08/2020	$0.00	30.15%	4.3%	2.16%	$18.19
134-136	16,438	5/11/2015	$17.63	4/11/2021	$0.00	30.90%	4.9%	2.16%	$14.63
137-139	2,240	18/12/2015	$18.36	17/12/2020	$0.00	29.74%	5.0%	2.24%	$15.63
140-142	2,640	2/05/2016	$22.18	1/05/2022	$0.00	30.11%	4.2%	2.06%	$18.19
143-145	129,207	22/08/2016	$29.50	21/08/2021	$0.00	29.29%	3.3%	1.51%	$26.27
146-148	123,256	22/08/2016	$29.50	21/08/2022	$0.00	30.09%	3.4%	1.51%	$25.70
152-154	1,474	19/10/2016	$28.79	18/10/2021	$0.00	29.09%	3.7%	2.18%	$23.75
155-157	1,474	2/11/2016	$27.41	1/11/2021	$0.00	29.09%	3.7%	2.18%	$23.75
158-159	106,312	18/04/2017	$24.46	17/04/2023	$0.00	28.11%	4.6%	2.02%	$21.16
160-162	6,951	1/05/2017	$24.94	30/04/2022	$0.00	28.27%	4.0%	2.07%	$21.58
	1,359,199								

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

As at 14 August 2017, 884 options are vested and exercisable. In addition, up to 471,725 additional options will vest and become exercisable in August 2017, subject to the satisfaction of the relevant service, performance and share price vesting conditions.

The weighted average fair value of the share options granted during the financial year is $24.71 (FY2016: $17.57).

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.

2017

Option Series	*Grant date*	*Number exercised*	*Number of shares issued*	*Amount paid per share $*	*Share price at exercise date[i] $*
79	17/08/2012	94,141	94,141	$0.00	$28.95 to $30.44
80-81	17/08/2012	112,057	112,057	$9.75	$26.32 to $29.31
83-85	17/08/2012	17,650	17,650	$0.00	$28.95
90	6/11/2012	3,000	3,000	$0.00	$26.61
92	16/08/2013	56,153	56,153	$0.00	$28.95 to $31.19
94-95	16/08/2013	31,888	31,888	$18.93	$26.69 to $29.31
96-97	16/08/2013	9,116	9,116	$0.00	$28.95
102	1/07/2014	34,984	34,984	$0.00	$28.95
114	15/08/2014	59,635	59,635	$0.00	$28.95 to $31.19
		418,624	418,624		

(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.

2016

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

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

Long-term incentives subject to performance conditions

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

Option Series	*Grant Date*	*Performance Hurdle*[(i)(ii)(iii)]	*Date for first testing*	*Relevant Financial Year*	*Exercise Price $*	*Expiry Date*
Vested (time based service condition and performance hurdle achieved)						
83	17/08/2012	5%-10%	17/08/2015	2015	$0.00	16/08/2018
85	17/08/2012	5%-10%	17/08/2016	2016	$0.00	16/08/2018
97	16/08/2013	5%-10%	16/08/2016	2016	$0.00	15/08/2019
Not vested (time based service condition achieved and performance hurdle achieved but share price vesting condition not satisfied)						
81	17/08/2012	5%-10%	17/08/2015	2015	$9.75	16/08/2018
81	17/08/2012	5%-10%	17/08/2016	2016	$9.75	16/08/2018
95	16/08/2013	5%-10%	16/08/2016	2016	$18.93	15/08/2019
Not vested (performance hurdle achieved but time based service condition not achieved)						
80-81	17/08/2012	5%-10%	17/08/2017	2017	$9.75	16/08/2018
86-87	17/08/2012	5%-10%	17/08/2017	2017	$0.00	16/08/2018
94-95	16/08/2013	5%-10%	16/08/2017	2017	$18.93	15/08/2019
98-99	16/08/2013	5%-10%	16/08/2017	2017	$0.00	15/08/2019
103-104	15/08/2014	5%-10%	15/08/2017	2017	$17.72	14/08/2020
105-106	15/08/2014	5%-10%	15/08/2017	2017	$0.00	14/08/2020
117-118	27/11/2014	5%-10%	27/11/2017	2017	$15.58	26/11/2020
119-120	27/11/2014	5%-10%	27/11/2017	2017	$0.00	26/11/2020
Not vested (time based service condition and performance hurdle not achieved)						
94-95	16/08/2013	5%-10%	16/08/2018	2018	$18.93	15/08/2019
100-101	16/08/2013	5%-10%	16/08/2018	2018	$0.00	15/08/2019
103-104	15/08/2014	5%-10%	15/08/2018	2018	$17.72	14/08/2020
103-104	15/08/2014	5%-10%	15/08/2019	2019	$17.72	14/08/2020
107-108	15/08/2014	5%-10%	15/08/2018	2018	$0.00	14/08/2020
109-110	15/08/2014	5%-10%	15/08/2019	2019	$0.00	14/08/2020
117-118	27/11/2014	5%-10%	27/11/2018	2018	$15.58	26/11/2020
117-118	27/11/2014	5%-10%	27/11/2019	2019	$15.58	26/11/2020
121-122	27/11/2014	5%-10%	27/11/2018	2018	$0.00	26/11/2020
123-124	27/11/2014	5%-10%	27/11/2019	2019	$0.00	26/11/2020
128	14/08/2015	4%-8%	14/08/2018	2018	$0.00	13/08/2021
129	14/08/2015	4%-8%	14/08/2019	2019	$0.00	13/08/2021
130	14/08/2015	4%-8%	14/08/2020	2020	$0.00	13/08/2021
134	5/11/2015	4%-8%	5/11/2018	2018	$0.00	4/11/2021
135	5/11/2015	4%-8%	5/11/2019	2019	$0.00	4/11/2021
136	5/11/2015	4%-8%	5/11/2020	2020	$0.00	4/11/2021
140	2/05/2016	4%-8%	2/05/2019	2018	$0.00	1/05/2022
141	2/05/2016	4%-8%	2/05/2020	2019	$0.00	1/05/2022
142	2/05/2016	4%-8%	2/05/2021	2020	$0.00	1/05/2022
146	22/08/2016	4%-8%	22/08/2019	2019	$0.00	21/08/2022
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

(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.

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

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

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

14 August 2017

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 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Andrew Reid
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

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

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

Report on the Financial Report

We have audited the financial report of JB Hi-Fi Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated balance sheet as at 30 June 2017, 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 ended on that date, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, 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 2017 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.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Acquisition of The Good Guys Refer to Note 25 *Business Combinations*. On 28 November 2016 JB Hi-Fi acquired 100% of The Good Guys for cash consideration of $860 million. The accounting for this transaction, of which the amounts attributable to certain assets and liabilities remain provisional as at 30 June 2017, was complex and required management to exercise judgement to determine: • the fair value of acquired identifiable assets and liabilities (to the extent practicable as at 30 June 2017); and • the allocation of purchase consideration to separately identifiable intangible assets. We focused on this area as a key audit matter due to the size of the acquisition and the judgment involved in accounting for the transaction.	Our procedures included, amongst others: • reviewing the sale agreement to understand key terms and conditions; • assessing the analysis and the status of the analysis performed by management regarding finalising the identification and valuation of acquired assets and liabilities, including intangible assets; • performing tests on the fair value where assets and liabilities have been identified and fair values have been finalised; • in conjunction with our valuation specialists, assessing the third party valuation utilised by management in their determination of fair value for The Good Guys brand name intangible asset. Our assessment included an evaluation of the accounting methodology and assumptions used by the third party in the valuation model, and an evaluation of their competence and objectivity; and • evaluating the appropriateness of the relevant disclosures in Note 25.

Carrying value of the New Zealand cash generating unit
 	
Refer to Note 11 *Intangibles* and Note 10 *Plant and Equipment*.
 	
During the year ended 30 June 2017, the Group impaired goodwill of $14.7 million and plant, property and equipment of $1.1 million attributable to JB Hi-Fi's New Zealand cash generating unit (CGU).
 	
Management has assessed the recoverable amount of the New Zealand CGU using a discounted cash flow model which incorporates judgements about the future growth rate of the business, the discount rate applied to future cash flow forecasts and assumptions used in the value-in-use model.
 	
We focused on this area as a key audit matter due to the decline in financial performance of the New Zealand CGU and the judgement involved in forecasting future cash flows and other key assumptions.
	Our audit procedures included, amongst others:
	• obtaining an understanding of management's processes associated with the preparation of the value-in-use model
	• agreeing forecast cash flows to the latest Board approved forecasts and assessing the historical accuracy of forecasting
	• with the assistance of our valuation specialists:
	  • critically assessing management's value-in-use methodology;
	  • challenging key assumptions, including forecast growth rates by comparing them to historical results and economic and industry forecasts;
	  • evaluating the discount rate used by assessing the cost of capital for the CGU by comparison to market data and industry research:
	  • assessing the mathematical accuracy of the value-in-use model;
	  • assessing managements sensitivity analyses around key assumptions used in the valuation model and the likelihood of such a movement in those key assumptions arising; and
	  • evaluating the appropriateness of the disclosures included in Note 11 to the financial report.

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 will be included in the annual report (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.

Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In 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 30 to 55 of the Director's report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of JB Hi-Fi Limited, for the year ended 30 June 2017, 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

Andrew Reid
Partner
Chartered Accountants

Melbourne
14 August 2017

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
14 August 2017

		Consolidated	
	Notes	*2017 $m*	*2016 $m*
Revenue		5,628.0	3,954.5
Cost of sales		(4,397.5)	(3,089.1)
Gross profit		1,230.5	865.4
Other income		2.0	0.6
Sales and marketing expenses		(580.1)	(404.6)
Occupancy expenses		(248.6)	(173.8)
Administration expenses		(36.2)	(27.2)
Acquisition transaction and implementation expenses		(22.4)	–
Other expenses		(75.3)	(38.7)
Finance costs	5	(10.7)	(3.9)
Profit before tax		259.2	217.8
Income tax expense	6	(86.8)	(65.6)
Profit for the year attributable to Owners of the Company		172.4	152.2
		Cents	*Cents*
Earnings per share			
Basic (cents per share)	3	154.30	151.90
Diluted (cents per share)	3	152.94	150.30

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

	Consolidated	
	2017 $m	*2016 $m*
Profit for the year	172.4	152.2
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Changes in the fair value of cash flow hedges (net of tax)	(1.1)	0.1
Exchange differences on translation of foreign operations	(0.1)	3.9
Other comprehensive (loss)/income for the year (net of tax)	(1.2)	4.0
Total comprehensive income for the year attributable to Owners of the Company	171.2	156.2

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

	Notes	Consolidated 2017 $m	2016 $m
ASSETS			
Current assets			
Cash and cash equivalents		72.8	51.9
Trade and other receivables	8	196.6	98.0
Inventories	7	859.9	546.4
Other current assets	9	41.4	6.1
Total current assets		1,170.7	702.4
Non-current assets			
Plant and equipment	10	208.2	183.6
Deferred tax assets	6	–	7.8
Intangible assets	11	1,026.6	98.5
Other non-current assets	9	46.8	–
Total non-current assets		1,281.6	289.9
Total assets		2,452.3	992.3
LIABILITIES			
Current liabilities			
Trade and other payables	12	647.8	339.9
Deferred revenue	13	141.8	45.1
Provisions	14	75.4	46.0
Other current liabilities	15	9.0	4.9
Current tax liabilities		11.8	10.9
Total current liabilities		885.8	446.8
Non-current liabilities			
Borrowings	17	558.8	109.7
Deferred revenue	13	99.6	–
Deferred tax liabilities	6	8.2	–
Provisions	14	11.8	6.4
Other non-current liabilities	15	34.6	24.7
Total non-current liabilities		713.0	140.8
Total liabilities		1,598.8	587.6
Net assets		853.5	404.7
EQUITY			
Contributed equity	18	438.7	49.3
Reserves	19	33.2	27.1
Retained earnings		381.6	328.3
Total equity		853.5	404.7

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

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 2015		56.5	21.8	1.1	0.8	(6.1)	269.3	343.4
Profit for the year		–	–	–	–	–	152.2	152.2
Cash flow hedges (net of tax)		–	–	–	0.1	–	–	0.1
Exchange difference on translation of foreign operations		–	–	3.9	–	–	–	3.9
Total comprehensive income for the year		–	–	3.9	0.1	–	152.2	156.2
Issue of shares under share option plans	18	6.0	–	–	–	–	–	6.0
Share buy-back	18	(13.2)	–	–	–	–	–	(13.2)
Dividends provided for or paid	4	–	–	–	–	–	(93.2)	(93.2)
Share-based payments - expense		–	4.3	–	–	–	–	4.3
Share-based payments - income tax		–	1.2	–	–	–	–	1.2
Balance at 30 June 2016		49.3	27.3	5.0	0.9	(6.1)	328.3	404.7
Balance at 1 July 2016		49.3	27.3	5.0	0.9	(6.1)	328.3	404.7
Profit for the year		–	–	–	–	–	172.4	172.4
Cash flow hedges (net of tax)		–	–	–	(1.1)	–	–	(1.1)
Exchange difference on translation of foreign operations		–	–	(0.1)	–	–	–	(0.1)
Total comprehensive income for the year		–	–	(0.1)	(1.1)	–	172.4	171.2
Issue of shares under share option plans	18	1.7	–	–	–	–	–	1.7
Share issue costs (net of tax)	18	(6.5)	–	–	–	–	–	(6.5)
Dividends provided for or paid	4	–	–	–	–	–	(119.1)	(119.1)
Issue of shares under entitlement offer	18	394.2	–	–	–	–	–	394.2
Share-based payments - expense		–	5.3	–	–	–	–	5.3
Share-based payments - income tax		–	2.0	–	–	–	–	2.0
Balance at 30 June 2017		438.7	34.6	4.9	(0.2)	(6.1)	381.6	853.5

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

	Notes	Consolidated 2017 $m	Consolidated 2016 $m
Cash flows from operating activities			
Receipts from customers		6,205.5	4,355.7
Payments to suppliers and employees		(5,908.8)	(4,101.2)
Interest and bill discounts received		1.7	0.5
Interest and other finance costs paid		(9.3)	(3.7)
Income taxes paid		(98.5)	(66.2)
Net cash inflow from operating activities	16	190.6	185.1
Cash flows from investing activities			
Payment for business combination, net of cash acquired	25	(836.6)	–
Payments for plant and equipment	10	(49.1)	(52.3)
Proceeds from sale of plant and equipment		0.2	0.3
Net cash (outflow) from investing activities		(885.5)	(52.0)
Cash flows from financing activities			
Proceeds from issues of shares	18	395.9	6.0
Proceeds/(repayment) of borrowings		450.0	(30.0)
Payments for debt issue costs		(1.7)	(0.1)
Payment for shares bought back	18	–	(13.2)
Share issue costs		(9.2)	–
Dividends paid to owners of the Company	4	(119.1)	(93.2)
Net cash inflow (outflow) from financing activities		715.9	(130.5)
Net increase in cash and cash equivalents		21.0	2.6
Cash and cash equivalents at the beginning of the financial year		51.9	49.1
Effects of exchange rate changes on cash and cash equivalents		(0.1)	0.2
Cash and cash equivalents at end of year		72.8	51.9

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

Contents of the notes to the consolidated financial statements

1 ABOUT THIS REPORT

These are the consolidated financial statements of JB Hi-Fi Limited (Company or parent entity) and its controlled entities. JB Hi-Fi Limited and its 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 Level 4, Office Tower 2, Chadstone Place, Chadstone Shopping Centre, 1341 Dandenong Road, Chadstone, Victoria.

The financial statements were authorised for issue by the directors on 14 August 2017.

(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
Business combination	25

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 2017 is as follows:

2017	*JB Aust $m*	*JB NZ $m*	*TGG $m*	*Total $m*
Revenue from external customers	4,148.6	221.0	1,258.4	5,628.0
EBITDA	302.0	0.6	57.7	360.3
Total segment assets	1,139.8	52.2	1,283.8	2,475.8
Additions to plant and equipment	37.6	1.8	9.7	49.1
Depreciation and impairment	39.5	19.0	11.2	69.7
Total segment liabilities	1,075.9	14.4	532.0	1,622.3

2016	*JB Aust $m*	*JB NZ $m*	*TGG $m*	*Total $m*
Revenue from external customers	3,739.4	215.1	–	3,954.5
EBITDA	258.2	4.5	–	262.7
Total segment assets	969.2	75.1	–	1,044.3
Additions to plant and equipment	47.0	5.3	–	52.3
Depreciation and impairment	37.9	3.6	–	41.5
Total segment liabilities	568.2	19.8	–	588.0

Note that the amounts disclosed for TGG are from the date of acquisition on 28 November 2016 until the end of the financial year. Refer to note 25 for further details.

(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	
	2017 $m	*2016 $m*
EBITDA pre-transaction and implementation costs	360.3	262.7
Transaction and implementation costs	(22.4)	–
EBITDA	337.9	262.7
Interest revenue	1.7	0.5
Finance costs	(10.7)	(3.9)
Depreciation and impairment	(69.7)	(41.5)
Profit before income tax from continuing operations	259.2	217.8

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	
	2017 $m	*2016 $m*
Segment assets	2,475.8	1,044.3
Intersegment eliminations	(23.5)	(52.0)
Total assets as per the balance sheet	2,452.3	992.3
Segment liabilities	1,622.3	588.0
Intersegment eliminations	(23.5)	(0.4)
Total liabilities as per the balance sheet	1,598.8	587.6

(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.

	Consolidated	
	2017 Cents	*2016 Cents*
3 EARNINGS PER SHARE		
Basic (cents per share)	154.30	151.90
Diluted (cents per share)	152.94	150.30

	Consolidated	
	2017 $m	*2016 $m*
(a) Reconciliation of earnings used in calculating earnings per share		
Basic earnings per share		
Profit for the year attributable to owners of the Company	172.4	152.2
Diluted earnings per share		
Profit for the year attributable to owners of the Company	172.4	152.2

3 EARNINGS PER SHARE (continued)

	Consolidated 2017 Number m	Consolidated 2016 Number m
(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	111.7	100.2
Adjustments for calculation of diluted earnings per share:		
Options	1.0	1.1
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	112.7	101.3

In accordance with AASB 133 *Earnings per Share*, the comparative earnings per share calculations have been restated for the bonus element of the 1 for 6.60 entitlement offer undertaken in September 2016. The previously reported June 2016 weighted average number of shares has been adjusted by a factor of 1.01.

(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 993,326 options are considered dilutive (2016: 1,060,513), 237,311 are considered anti-dilutive (2016: 518,494). The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 28.

	2017 Cents per share	2017 $m	2016 Cents per share	2016 $m
4 DIVIDENDS				
Recognised amounts				
Final Dividend - previous financial year	37.00	36.7	31.00	30.9
Interim Dividend - current financial year	72.00	82.4	63.00	62.3
	109.00	119.1	94.00	93.2
Unrecognised amounts				
Final Dividend - current financial year	46.00	52.6	37.00	36.7

In respect of the financial year ended 30 June 2017, the directors have recommended the payment of a final dividend of 46.0 cents per share. The record date is 25 August 2017.

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

	Consolidated 2017 $m	Consolidated 2016 $m
(a) Franking account balance		
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2016: 30.0%)	221.5	161.7

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 $22.6 million (2016: $15.7 million).

	Consolidated 2017 $m	Consolidated 2016 $m
5 EXPENSES		
Profit before income tax includes the following specific expenses:		
Finance costs		
Interest on loans	9.6	3.5
Fair value loss on interest swaps designated as cash flow hedges - transfer from equity	0.4	0.1
Other interest expense	0.7	0.3
	10.7	3.9
Rental expense relating to operating leases		
Minimum lease payments	152.4	102.3
Employee benefits expenses		
Defined contribution superannuation expense	43.6	30.2
Share-based payments - expense	5.3	4.3
Other employee benefits	520.7	365.5
	569.6	400.0
6 TAXATION		
(a) Income tax expense		
Current tax	78.3	61.9
Deferred tax	8.5	3.7
	86.8	65.6
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	259.2	217.8
Tax at the Australian tax rate of 30.0% (2016: 30.0%)	77.8	65.3
Effect of expenses that are not deductible in determining taxable profit	9.8	1.3
Effect of different tax rates of subsidiaries operating in other jurisdictions	0.4	–
Effect of other deductibles in determining taxable profit	(1.3)	(1.1)
Other	0.1	0.1
Tax expense	86.8	65.6
(c) Amounts recognised directly in equity		
The following current and deferred amounts were charged directly to equity during the period:		
Current tax		
Tax effect of employee share options in reserves	(2.0)	(1.2)
Deferred tax		
Tax effect of hedge gains/(loss) in reserves	(0.5)	–
Tax effect of share issue costs charged to issued capital	(2.7)	–
	(5.2)	(1.2)

6 TAXATION (continued)

	Consolidated 2017 $m	Consolidated 2016 $m
(d) Deferred tax		
The balance comprises temporary differences attributable to:		
Deferred tax assets		
Provisions	35.3	22.4
Inventories	7.8	3.0
Deferred revenue	55.2	–
Other	6.7	1.5
	105.0	26.9
Deferred tax liabilities		
Brand names	(85.2)	(12.9)
Prepayments	(25.1)	–
Other	(2.9)	(6.2)
	(113.2)	(19.1)
Net deferred tax (liabilities) assets	(8.2)	7.8

Movements - Consolidated	*Provisions $m*	*Inventories $m*	*Deferred revenue $m*	*Brand names $m*	*Prepayments $m*	*Other $m*	*Total $m*
At 1 July 2015	21.4	2.8	–	(12.9)	–	(6.8)	4.5
Charged to income	1.0	0.2	–	–	–	2.1	3.3
At 30 June 2016	22.4	3.0	–	(12.9)	–	(4.7)	7.8
At 1 July 2016	22.4	3.0	–	(12.9)	–	(4.7)	7.8
Business combination	11.6	3.4	53.2	(72.3)	(23.7)	1.0	(26.8)
Charged to income	1.3	1.4	2.0	–	(1.4)	5.2	8.5
Charged to equity	–	–	–	–	–	2.3	2.3
At 30 June 2017	35.3	7.8	55.2	(85.2)	(25.1)	3.8	(8.2)

(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.

6 TAXATION (continued)

(e) Recognition and measurement (continued)

Deferred tax (continued)

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

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

(f) Tax consolidation legislation

The Company and its wholly owned Australian resident entities are part of a tax consolidated group and are therefore taxed as a single entity. The head entity within the tax consolidated group is JB Hi-Fi Limited. The members of the tax consolidated group are identified at note 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 2017 $m	Consolidated 2016 $m
7 INVENTORIES		
Finished goods	859.9	546.4

(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 2017 $m	Consolidated 2016 $m
8 TRADE AND OTHER RECEIVABLES		
Trade receivables	54.2	31.5
Allowance for doubtful debts	(0.7)	(0.5)
	53.5	31.0
Non-trade receivables	143.1	67.0
	196.6	98.0

(a) Terms and conditions

Trade receivables

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

Non-trade receivables

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

	Consolidated 2017 $m	Consolidated 2016 $m
(b) Ageing of trade receivables		
Not past due	48.2	28.9
Past due but not impaired:		
0 - 30 days	4.0	1.3
31 - 60 days	1.3	0.8
61 - 90 days	–	–
91+ days	–	–
	53.5	31.0

8 TRADE AND OTHER RECEIVABLES (continued)

	Consolidated 2017 $m	Consolidated 2016 $m
(c) Movements in allowance for doubtful debts		
Balance at the beginning of the year	0.5	0.4
Provision for impairment recognised during the year	0.3	0.2
Receivables written off during the year as uncollectable	(0.1)	(0.1)
	0.7	0.5
(d) Ageing of impaired trade receivables		
0 - 31 days	–	–
31 - 60 days	0.1	–
61 - 90 days	0.5	0.4
91+ days	0.1	0.1
	0.7	0.5

(e) Collectability of trade receivables

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

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

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

	Consolidated 2017 $m	Consolidated 2016 $m
9 OTHER ASSETS		
Current		
Prepayments	29.8	3.1
Other	11.6	3.0
	41.4	6.1
Non-current		
Prepayments	46.8	–
	46.8	–

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

	Plant and equipment $m	Leasehold improvements $m	Total $m
10 PLANT AND EQUIPMENT			
At 1 July 2015			
Cost	240.8	143.7	384.5
Accumulated depreciation and impairment	(126.0)	(82.3)	(208.3)
Net book amount	114.8	61.4	176.2
Year ended 30 June 2016			
Opening net book amount	114.8	61.4	176.2
Exchange differences	0.7	0.3	1.0
Additions	32.6	19.7	52.3
Disposals	(4.0)	(0.4)	(4.4)
Depreciation charge	(23.3)	(17.6)	(40.9)
Impairment charge	(0.3)	(0.3)	(0.6)
Closing net book amount	120.5	63.1	183.6
At 30 June 2016			
Cost	259.0	160.4	419.4
Accumulated depreciation and impairment	(138.5)	(97.3)	(235.8)
Net book amount	120.5	63.1	183.6
Year ended 30 June 2017			
Opening net book amount	120.5	63.1	183.6
Acquisitions through business combination	35.0	0.2	35.2
Additions	33.5	15.6	49.1
Disposals	(4.5)	(0.2)	(4.7)
Depreciation charge	(35.6)	(18.3)	(53.9)
Impairment charge	(0.7)	(0.4)	(1.1)
Closing net book amount	148.2	60.0	208.2
At 30 June 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

(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.

	Goodwill $m	Brand names $m	Location premiums $m	Rights to profit share $m	Total $m
11 INTANGIBLE ASSETS					
Year ended 30 June 2016					
Opening net book amount	48.4	43.1	2.4	3.5	97.4
Exchange differences	1.1	–	–	–	1.1
Closing net book amount	49.5	43.1	2.4	3.5	98.5
Year ended 30 June 2017					
Opening net book amount	49.5	43.1	2.4	3.5	98.5
Additions - business combination (note 25)	701.5	241.3	–	–	942.8
Impairment charge	(14.7)	–	–	–	(14.7)
Closing net book amount	736.3	284.4	2.4	3.5	1,026.6

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

	Consolidated 2017 $m	Consolidated 2016 $m
JB Hi-Fi Australia	161.3	26.7
Impact Records (store acquisition)	1.7	1.7
JB Hi-Fi New Zealand	–	14.7
JB Solutions division (Commercial)	6.4	6.4
The Good Guys	566.9	–
	736.3	49.5

11 INTANGIBLE ASSETS (continued)

(b) Impairment testing (continued)

The goodwill arising on the acquisition of The Good Guys of $701.5m (refer note 25), has been allocated to the JB Hi-Fi Australia CGU ($134.6m) and The Good Guys CGU ($566.9m) based on their expected earnings contribution to the group arising from the acquisition.

The recoverable amount of each CGU (or group of CGUs) has been determined based on value in use calculations which use cash flow projections from financial budgets approved by management covering a five year period, using a discount rate of 10.0% for JB Hi-Fi Australia, Impact Records and JB Solutions division (2016: 11.0%), 10.5% for JB Hi-Fi New Zealand (2016: 11.5%) and 10.5% for The Good Guys. The cash flows beyond the budget period have been extrapolated using a steady 2% long term growth rate (2016: 2%) which is consistent with the projected long term average growth rate for the consumer products market.

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

(c) Impairment charge

The goodwill associated with JB Hi-Fi New Zealand of $14.7m was impaired following poor performance in the year ended 30 June 2017 for the CGU.

The impairment charge has been included in profit or loss in the other expenses line item.

	Consolidated	
	2017 $m	*2016 $m*
12 TRADE AND OTHER PAYABLES		
Trade payables	583.7	302.1
Goods and services tax (GST) payable	24.1	21.4
Other creditors and accruals	40.0	16.4
	647.8	339.9

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	
	2017 $m	*2016 $m*
13 DEFERRED REVENUE		
Current		
Deferred revenue	141.8	45.1
	141.8	45.1
Non-current		
Deferred revenue	99.6	–
	99.6	–

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 30(a) for revenue recognition accounting policy.

	Consolidated 2017 $m	Consolidated 2016 $m
14 PROVISIONS		
Current		
Employee benefits	70.5	44.0
Lease provision	4.9	2.0
	75.4	46.0
Non-current		
Employee benefits	7.3	4.9
Lease provision	4.5	1.5
	11.8	6.4

(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.

	Consolidated	
	2017 *$m*	*2016* *$m*
15 OTHER LIABILITIES		
Current		
Lease accrual	2.9	2.0
Lease incentive	4.8	2.9
Other financial liabilities	1.3	–
	9.0	4.9
Non-current		
Lease accrual	14.8	11.5
Lease incentive	19.8	13.2
	34.6	24.7

(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.

(c) Other financial liabilities

Other financial liabilities represents the fair value of interest rate swaps and caps, along with forward foreign exchange contracts held by the Group. Refer to note 20 for further details.

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.

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

	Consolidated	
	2017 $m	*2016 $m*
Profit for the year	172.4	152.2
Depreciation and amortisation	53.9	40.9
Impairment of plant and equipment	1.1	0.6
Impairment of goodwill	14.7	–
Non-cash employee benefits expense - share-based payments	5.3	4.3
Net loss on disposal of non-current assets	4.5	4.1
Change in operating assets and liabilities net of effects from acquisition of businesses:		
(Increase) decrease in inventories	(56.3)	(64.8)
(Increase) decrease in current receivables	3.0	(16.3)
(Increase) decrease in other current assets	(3.0)	1.3
(Increase) decrease in deferred tax assests	(8.5)	(3.3)
(Decrease) increase in current payables	(5.8)	58.2
(Decrease) increase in current provisions	4.2	5.3
(Decrease) increase in other current liabilities	1.4	0.2
(Decrease) increase in non-current provisions	(0.2)	0.3
(Decrease) increase in other non-current liabilities	7.2	(0.7)
(Decrease) increase in current tax liabilities	(3.3)	2.8
Net cash inflow from operating activities	190.6	185.1

17 BORROWINGS

Unsecured non-current		
Bank loans	558.8	109.7

During the year ended 30 June 2017, in order to fund the acquisition of The Good Guys, the Group utilised $50 million of existing debt facilities and entered into a new $450 million multi-tranche acquisition debt facility with a syndicate of banks. The tranches in the new debt facility have a 3 and 4 year tenor.

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.

	2017 Shares	2016 Shares	2017 $m	2016 $m
	Parent entity		**Parent entity**	
18 CONTRIBUTED EQUITY				
(a) Share capital				
Ordinary shares - fully paid	114,421,403	98,947,309	438.7	49.3

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 2015	Opening balance	98,989,901	56.5
	Issue of shares under the share option plans	671,849	6.0
	Share buy-back	(714,441)	(13.2)
30 June 2016	Closing balance	98,947,309	49.3
1 July 2016	Opening balance	98,947,309	49.3
	Issue of shares under the entitlement offer	15,046,182	394.2
	Issue of shares under share option and deferred STI plans	427,912	1.7
	Share issue costs (net of tax)	–	(6.5)
30 June 2017	Closing balance	114,421,403	438.7

(c) Share options

In accordance with the provisions of the Company's share option plans, as at 30 June 2017, executives and non-executive management have options over 1,359,199 ordinary shares (which were all unvested), in aggregate, with various expiry dates.

As at 30 June 2016, executives and non-executive management had options over 1,626,375 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.

(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 and hire purchase liabilities, 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 approximately 65% of net profit after tax as it seeks to strike a balance between shareholder returns and ensuring adequate capital is retained for the growth of the business so as to maximise long term shareholder returns.

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

18 CONTRIBUTED EQUITY (continued)

(d) Capital management (continued)

The Group's return on invested capital and gearing ratios as at 30 June 2017 and 30 June 2016 were as follows:

	Consolidated	
	2017 $m	2016 $m
Return on invested capital		
Profit before tax	259.2	217.8
Net finance costs	9.0	3.4
EBIT	268.2	221.2
Borrowings	558.8	109.7
Cash and cash equivalents	(72.8)	(51.9)
Net debt	486.0	57.8
Total equity	853.5	404.7
Invested capital	1,339.5	462.5
Return on invested capital	20%	47.8%
Gearing		
Term debt	560.0	110.0
EBIT	268.2	221.2
Depreciation and impairment	69.7	41.5
EBITDA	337.9	262.7
Gearing	1.66	0.42

19 RESERVES

Equity-settled benefits	34.6	27.3
Common control reserve	(6.1)	(6.1)
Hedging reserves	(0.2)	0.9
Foreign currency translation reserve	4.9	5.0
	33.2	27.1

(a) Nature and purpose of reserves

(i) Equity-settled benefits

The equity-settled benefits reserve arises on the grant of share options to executives and non-executive management under the Company's share option plans. Further information about share based payments is in note 28 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 30(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 30(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.

Due to the acquisition of The Good Guys, the Group is now 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 now holds forward foreign exchange contracts.

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

	Consolidated	
	2017 $m	*2016 $m*
Financial assets		
Cash and cash equivalents	72.8	51.9
Trade and other receivables	196.6	98.0
	269.4	149.9
Financial liabilities		
Trade and other payables	647.8	339.9
Bank loans	558.8	109.7
Interest rate swaps and caps (net settled)	0.6	–
Forward foreign exchange contracts	0.7	–
	1,207.9	449.6

(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 2017		
Consolidated	*Weighted average exchange rate*	*Foreign currency m*	*Notional value A$m*
Forward exchange contracts			
- buy USD (cash flow hedges)	0.75	25.6	34.2
- buy Euro (cash flow hedges)	0.67	4.3	6.4

There were no forward exchange contacts at 30 June 2016.

Summarised sensitivity analysis

The carrying value of forward foreign exchange contracts at 30 June 2017 was $0.7m (2016: nil). Using a sensitivity of 10% movement in exchange rates results in an immaterial impact on the carrying value.

20 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk (continued)

(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 2017		30 June 2016	
Consolidated	*Weighted average interest rate %*	*Balance $m*	*Weighted average interest rate %*	*Balance $m*
Bank loans	2.95%	560.0	2.97%	110.0
Interest rate swaps and caps (notional principal amount)	3.10%	250.0	–	–
Net exposure to cash flow interest rate risk		810.0		110.0

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.

Summarised sensitivity analysis

At 30 June 2017, the carrying value of interest rate swap and caps was $0.6m (2016: nil) and borrowings was $558.8m (2016: $109.7m). 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.

20 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Financing arrangements

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

	Consolidated 2017 $m	Consolidated 2016 $m
Unsecured bank overdraft facility:		
amount used	5.1	–
amount unused	84.4	89.5
	89.5	89.5
Unsecured indemnity guarantees:		
amount used	7.4	1.3
amount unused	1.5	0.1
	8.9	1.4
Unsecured bank loan facilities (term debt):		
amount used[(i)]	560.0	110.0
amount unused	90.0	90.0
	650.0	200.0
Headroom in total borrowing facilities (excluding security indemnity guarantees)	174.4	179.5

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

Maturities of financial liabilities

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

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

2017	Less than 6 months $m	6 - 12 months $m	Between 1 and 2 years $m	Between 2 and 5 years $m	Over 5 years $m	Total $m	Weighted average effective interest rate %
Financial liabilities							
Trade and other payables	647.8	–	–	–	–	647.8	–
Bank loans	8.3	8.3	206.2	369.5	–	592.3	2.95%
Interest rate swaps and caps (net settled)	0.3	0.2	(0.1)	–	–	0.4	3.10%
Forward foreign exchange contracts	0.5	0.2	–	–	–	0.7	–
	656.9	8.7	206.1	369.5	–	1,241.2	

2016	Less than 6 months $m	6 - 12 months $m	Between 1 and 2 years $m	Between 2 and 5 years $m	Over 5 years $m	Total $m	Weighted average effective interest rate %
Financial liabilities							
Trade and other payables	339.9	–	–	–	–	339.9	–
Bank loans	1.6	1.6	113.3	–	–	116.5	2.97%
	341.5	1.6	113.3	–	–	456.4	

20 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk management

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

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

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

(d) Fair value of financial instruments

The only financial assets or financial liabilities carried at fair value are interest rate swaps, interest rate caps and foreign currency forward contracts.

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 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	
	2017 $m	*2016 $m*
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	146.0	83.0
Later than one year but not later than five years	395.4	239.9
Later than five years	142.2	95.2
	683.6	418.1

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:

		Ownership interest	
Name of entity	*Country of incorporation*	*2017 %*	*2016 %*
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	–
The Muir Electrical Company Pty Ltd ^	Australia	100	–
The Muir Electrical Service Co Pty Ltd ^	Australia	100	–
The Good Guys Discount Warehouses (Australia) Pty Ltd ^	Australia	100	–
Muir Group Employee Share Plan Pty Ltd ^	Australia	100	–
The Muir Finance Company Pty Ltd ^	Australia	100	–
M.E.W. (Australia) Pty Ltd ^	Australia	100	–
The Muir Electrical Company Pty Ltd as Trustee of the Muir Investment Unit Trust ^	Australia	100	–
The Good Guys Discount Warehouses (Australia) Pty Ltd as Trustee of the various store Trusts	Australia	100	–

Notes:

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

(ii) JB Hi-Fi (B) Pty Ltd was incorporated on 5 September 2016. All other entities shown with 100% ownership at 30 June 2017 and nil at 30 June 2016 were acquired as part of The Good Guys acquisition on 28 November 2016.

(iii) All Australian entities are members of the tax consolidated group. Entities acquired on 28 November 2016 joined the tax consolidated group on that date.

(iv) Entities identified with '*' were removed from the old deed of cross guarantee by a revocation deed dated 31 May 2017.

(v) Entities identified with '^' became party to a new deed of cross guarantee dated 31 May 2017.

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

(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 companies identified with a '*' in note 22 are parties to a deed of cross guarantee (the 'existing deed of cross guarantee'). Following the acquisition of The Good Guys, these companies executed revocation deeds on 31 May 2017 to revoke the existing deed of cross guarantee. These revocation deeds were lodged with the Australian Securities and Investments Commission on 7 June 2017 and advertised as required by the *Corporations Act 2001*. These revocation deeds become effective, and the existing deed of cross guarantee will be revoked, if the companies identified with a '*' in note 22 are not liquidated within 6 months after the revocation deeds were lodged with ASIC. Also on 31 May 2017, a new deed of cross guarantee was entered into which includes The Good Guys entities. The subsidiaries identified with a '^' in note 22 are parties to the new 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:

	2017 $m	*2016 $m*
(a) Consolidated statement of profit or loss, statement of profit or loss and other comprehensive income		
Statement of profit or loss		
Revenue	4,383.2	3,739.4
Cost of sales	(3,322.6)	(2,913.6)
Gross profit	1,060.6	825.8
Other income	6.4	0.4
Sales and marketing expenses	(546.5)	(382.1)
Occupancy expenses	(183.5)	(161.4)
Administration expenses	(29.9)	(25.5)
Acquisition transaction and implementation expenses	(18.7)	–
Finance costs	(10.5)	(3.8)
Other expenses	(49.8)	(36.5)
Profit before income tax	228.1	216.9
Income tax expense	(76.3)	(65.4)
Profit for the year	151.8	151.5
Statement of profit or loss and other comprehensive income		
Profit for the year	151.8	151.5
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges (net of tax)	(1.1)	0.1
Other comprehensive income for the year (net of tax)	(1.1)	0.1
Total comprehensive income for the year	150.7	151.6

23 DEED OF CROSS GUARANTEE (continued)

	2017 $m	2016 $m
(b) Balance sheet		
Current assets		
Cash and cash equivalents	77.0	50.9
Trade and other receivables	196.5	94.9
Inventories	579.2	506.9
Other current assets	15.2	5.8
Total current assets	867.9	658.5
Non-current assets		
Plant and equipment	178.0	168.9
Deferred tax assets	21.4	6.4
Intangible assets	83.8	83.8
Other non-current assets	1,095.2	51.6
Total non-current assets	1,378.4	310.7
Total assets	2,246.3	969.2
Current liabilities		
Trade and other payables	627.3	326.8
Deferred revenue	55.4	41.4
Current tax liabilities	9.7	11.0
Provisions	75.9	44.2
Other current liabilities	12.6	4.7
Total current liabilities	780.9	428.1
Non-current liabilities		
Borrowings	558.8	109.7
Provisions	8.8	6.4
Other non-current liabilities	25.2	23.9
Total non-current liabilities	592.8	140.0
Total liabilities	1,373.7	568.1
Net assets	872.6	401.1
Equity		
Contributed equity	450.0	49.3
Reserves	33.8	22.1
Retained earnings	388.6	329.7
Total equity	872.4	401.1

	Parent Entity 2017 $m	Parent Entity 2016 $m
24 PARENT ENTITY		
Assets		
Current assets	0.8	1.5
Non-current assets	496.1	92.3
Total assets	496.9	93.8
Liabilities		
Current liabilities	15.4	14.3
Non-current liabilities	–	0.1
Total liabilities	15.4	14.4
Shareholders' equity		
Contributed equity	438.7	49.3
Reserves	34.6	27.3
Retained earnings	8.2	2.8
	481.5	79.4
Profit for the year	124.5	94.0
Total comprehensive income	124.5	94.0

25 BUSINESS COMBINATION

(a) Summary of acquisition

On 28 November 2016, the Group acquired 100% of The Good Guys for a headline purchase price of $870m, prior to working capital adjustments of ($9.9m), resulting in a net purchase consideration of $860.1m. The Good Guys is a leading retailer of home appliances and consumer electronics to the Australian market. The acquisition creates a best-in-class retailing combination and allows for significant expansion of JB Hi-Fi's capability in the home appliances market.

The acquisition of The Good Guys was funded through a 1 for 6.60 fully underwritten, pro-rata, accelerated, renounceable entitlement offer with retail entitlements trading which raised approximately $394 million with the balance funded through a combination of existing debt facilities plus a new $450 million multi-tranche acquisition debt facility.

There were no acquisitions in the year ending 30 June 2016.

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

	$m
(i) Purchase consideration:	
Cash paid	860.1

25 BUSINESS COMBINATION (continued)

(a) Summary of acquisition (continued)

	$m
(ii) The assets and liabilities recognised at the date of the acquisition were as follows:	
Current assets	
Cash and cash equivalents	23.5
Trade and other receivables	100.1
Inventories	257.2
Other current assets	34.3
Non-current assets	
Plant and equipment	35.2
Brand name	241.3
Other non-current assets	44.8
Current liabilities	
Trade and other payables	(322.6)
Deferred revenue	(86.6)
Provisions	(25.2)
Current tax liabilities	(6.5)
Other current liabilities	(1.8)
Non-current liabilities	
Deferred revenue	(94.7)
Provisions	(5.7)
Deferred tax liability	(26.8)
Other non-current liabilities	(7.9)
Net identifiable assets acquired	158.6

Certain items within the accounting for the acquisition of The Good Guys remain provisional as at 30 June 2017. These include the setting of opening deferred tax asset and liability balances and the accounting for the Gold Service Extras program operated by The Good Guys.

The Group will finalise its fair value assessment for the acquisition of The Good Guys in the financial statements of the Group for the half-year ending 31 December 2017.

	$m
(iii) The provisional goodwill arising on the acquisition was as follows:	
Purchase consideration	860.1
Less: provisional value of net identifiable assets acquired	(158.6)
Provisional goodwill arising on acquisition	701.5

Goodwill arising from the acquisition of The Good Guys remains provisional as at 30 June 2017 while the Group finalises its assessment of the fair value of assets and liabilities acquired.

The goodwill is attributable to various factors, including the high profitability potential of the acquired business, the ability to provide an expanded range of products and services to customers, the value of growth opportunities and inseparable intangible assets such as customer data, employee skills and experience and synergies with the existing JB Hi-Fi business. The goodwill arising on the acquisition will not be deductible for tax purposes.

25 BUSINESS COMBINATION (continued)

(a) Summary of acquisition (continued)

(iv) Revenue and profit contribution:

The acquired business contributed revenues of $1,258.4m and net profit after tax of $27.0m (including implementation costs) to the Group for the period from 28 November 2016 to 30 June 2017.

It is impracticable to disclose the contribution of The Good Guys assuming the acquisition occurred on 1 July 2016 due to the basis of accounting and effects of the restructure of The Good Guys Group immediately prior to acquisition.

	$m
(v) Purchase consideration - cash outflow:	
Net purchase consideration paid in cash	860.1
Less: cash and cash equivalent balances acquired	(23.5)
Outflow of cash - investing activities	836.6
(vi) Costs in relation to the acquisition have been recognised as follows:	
Acquisition related transaction costs recognised in acquisition transaction and implementation expenses	14.1
Share issue costs recognised in contributed equity	9.0
Debt issue costs capitalised into borrowings	1.7
Total	24.8

Within the statement of cash flows, acquisition related transaction costs have been recognised in operating cash flows, whilst share issue and debt issue costs have been recognised in financing activities.

Within acquisition transaction and implementation expenses in the statement of profit or loss there are $8.3m of implementation expenses in addition to the $14.1m of acquisition related transaction costs.

26 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.

	Consolidated 2017 $'000	Consolidated 2016 $'000
27 KEY MANAGEMENT PERSONNEL DISCLOSURES		
The aggregate compensation of the key management personnel of the Group is set out below:		
Short-term employee benefits	8,865	7,703
Post-employment benefits	278	285
Share-based payments expense	1,978	1,752
	11,121	9,740

Detailed remuneration disclosures are provided in the remuneration report on pages 30 to 55.

28 SHARE-BASED PAYMENTS

(a) Group share option plans

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

- options issued to non-executive managers - a third each on the second, third and fourth anniversary of issue;
- options issued to executives prior to 1 July 2012 - a third each on the second, third and fourth anniversary of issue;
- options issued to executives from 1 July 2012 - a third each on the third, fourth and fifth anniversary of issue;
- options issued to executives on 1 July 2014 - on the second anniversary of issue; and
- options issued to executives on 18 April 2017 - half each on the third and fourth anniversary of issue.

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

All options issued to executives under the Group's long term incentive program until 30 June 2015 include performance hurdles requiring compound annual EPS growth of between 5% and 20% with the exception of the retention options issued in the 2015 financial year which had no performance hurdles. Options issued to executives during the year ended 30 June 2017 have an EPS growth performance hurdle of between 4% and 15%.

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*
2017					
Outstanding Share Options with an exercise price	732,889	–	(328,835)	404,054	–
Outstanding Zero Exercise Price Options	893,486	446,499	(384,840)	955,145	–
	1,626,375	446,499	(713,675)	1,359,199	–
Weighted average exercise price of those with an exercise price	$14.65	–	$12.75	$15.53	–

28 SHARE-BASED PAYMENTS (continued)

(a) Group share option plans (continued)

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

The weighted average remaining contractual life of share options outstanding at the end of the period was 1,218 days (2016: 1,074 days).

Fair value of options granted

Equity settled share based payments with employees are measured at the fair value of the equity instrument at grant date. The weighted average fair value of options granted during the year ended 30 June 2017 was $24.71 (2016: $17.57). 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 2017 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 30 to 55.

Share based payments expense

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

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

	Consolidated 2017 $'000	2016 $'000
29 REMUNERATION OF AUDITORS		
Audit and other services		
Audit and review of group financial statements	589	333
Audit and review of subsidiary financial statements	31	30
Audit of accounting for the acquisition of The Good Guys	68	–
Other services	35	58
Total remuneration for audit and other services	723	421

The auditor of the Group is Deloitte Touche Tohmatsu.

30 SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES

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

(a) Revenue recognition

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

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

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

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

(ii) Commissions

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

(iii) Rendering of services

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

(b) Derivatives and hedging activities

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

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

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 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 other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

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

30 SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Derivatives and hedging activities (continued)

(i) Cash flow hedge (continued)

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

(ii) Net investment hedges

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

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

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

(c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

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

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

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

30 SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goods and Services Tax (GST)

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

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

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

(e) New accounting standards and interpretations

In the current year, the Group has adopted 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 2014-4 *Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation*

(ii) AASB 2015-1 *Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*

(iii) AASB 2015-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101*

The adoption of these new and revised Standards and Interpretations did not have any material financial impact on the amounts recognised and the disclosures presented in the financial statements of the Group.

As a consequence of an IFRS Interpretation Committee (IFRIC) agenda decision issued in November 2016, the Group has amended its accounting policy to recognise a deferred tax liability on indefinite life intangibles acquired as part of a business combination. The amendment resulted in an increase of $12.9m to goodwill and deferred tax liabilities as at the beginning of the earliest comparative period.

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

The effects of the following Standard are still being determined:

(i) AASB 15 *Revenue from Contracts with Customers*, and the relevant amending standards (effective 1 January 2018)

AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. AASB 15 will supersede the current revenue recognition guidance including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and the related Interpretations when it becomes effective.

The Group is in the process of completing its assessment of AASB 15. Based on the preliminary assessment performed to date, the effects are not expected to be material.

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

AASB 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. AASB 16 will supersede the current lease guidance including AASB 117 *Leases* and the related interpretations when it becomes effective.

AASB 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

30 SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) New accounting standards and interpretations (continued)

(ii) AASB 16 *Leases* (effective 1 January 2019) (continued)

The classification of cash flows will also be affected as operating lease payments under AASB 117 are presented as operating cash flows; whereas under the AASB 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively. Furthermore, extensive disclosures are required by AASB 16.

As at 30 June 2017, the Group has non-cancellable operating lease commitments of $683.6m (30 June 2016: $418.1m). AASB 117 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 21. A preliminary assessment indicates that these arrangements will meet the definition of a lease under AASB 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of AASB 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements. It is not practicable to provide a reasonable estimate of the financial effect until a full assessment of the potential impact is completed by the Group.

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

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

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

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

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

31 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.

The shareholder information set out below was applicable as at 7 August 2017.

A. Distribution of equity securities

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

	Ordinary shares		
Holding	*Total Holders*	*Units*	*% Issued Capital*
1 - 1,000	15,282	5,723,282	5.00%
1,001 - 5,000	5,128	10,360,199	9.05%
5,001 - 10,000	412	2,846,934	2.49%
10,001 - 100,000	216	5,373,182	4.70%
100,001 and over	26	90,117,806	78.76%
	21,064	114,421,403	100.00%

There were 304 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary shares	
Name	*Number held*	*% of issued shares*
1. J P MORGAN NOMINEES AUSTRALIA LIMITED	23,338,582	20.40%
2. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	21,189,769	18.52%
3. CITICORP NOMINEES PTY LIMITED	13,534,438	11.83%
4. BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	11,792,331	10.31%
5. NATIONAL NOMINEES LIMITED	6,633,226	5.80%
6. BNP PARIBAS NOMS PTY LTD <DRP>	4,294,593	3.75%
7. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	1,806,328	1.58%
8. CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	1,641,593	1.43%
9. UBS NOMINEES PTY LTD	848,297	0.74%
10. RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD <VFA A/C>	778,959	0.68%
11. CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>	632,016	0.55%
12. AMP LIFE LIMITED	565,890	0.49%
13. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	505,704	0.44%
14. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	468,352	0.41%
15. 3RD WAVE INVESTORS LTD	300,000	0.26%
16. SHAWVILLE PTY LTD	280,000	0.24%
17. RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	242,416	0.21%
18. POWERWRAP LIMITED <SCHEME - IML TRADES A/C>	218,018	0.19%
19. WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	196,287	0.17%
20. SCCASP HOLDINGS PTY LTD <H & R SUPER FUND A/C>	175,400	0.15%
	89,442,199	78.15%

C. Substantial holders

Substantial holders in the Company are set out below:

Ordinary shares	*Number held*	*Voting Power %*
Legg Mason Asset Management Australia Limited	9,383,770	8.20%
Australia Super Pty Ltd	8,983,625	7.85%
UniSuper	8,623,136	7.54%
UBS Group AG and its related bodies corporate	6,482,208	5.67%
Airlie Funds Management Pty Ltd	5,918,853	5.17%

	Number on issue	*Number of holders*
D. Unquoted equity securities		
Employee share options issued under the Company's share option plans	1,359,199	104

This page has been left intentionally blank

This page has been left intentionally blank

COMPANY SECRETARY

Doug Smith

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

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

SHARE REGISTRY

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

jbhifi.com.au

JB HI-FI

jbhifi.com.au