JB HI-FI

ANNUAL REPORT

2010

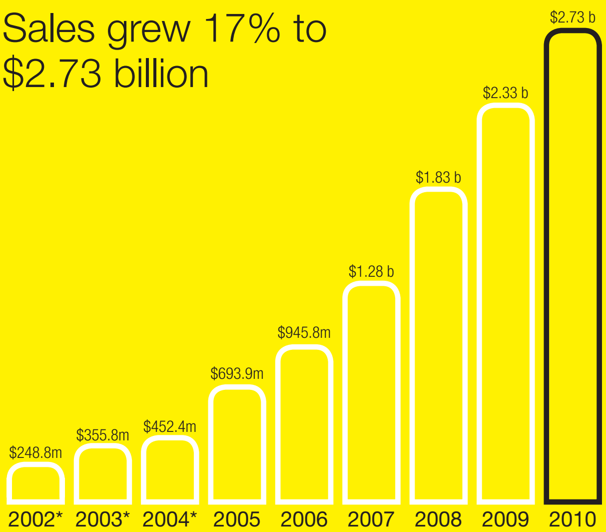
# Financial Summary

## FINANCIAL PERFORMANCE

| | 2004* | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | % |
|---|---|---|---|---|---|---|---|---|
| Sales revenue ($m) | 452.4 | 639.9 | 945.8 | 1,281.8 | 1,828.6 | 2,327.3 | 2,731.3 | 17.4 |
| EBIT ($m) | 22.8 | 34.7 | 44.5 | 65.5 | 102.3 | 142.0 | 175.1 | 23.3 |
| NPAT ($m) | 13.8 | 19.5 | 25.8 | 40.4 | 65.1 | 94.4 | 118.7 | 25.6 |
| Earnings per share (¢) | 13.5 | 19.0 | 25.0 | 38.8 | 61.8 | 88.3 | 109.7 | 24.3 |

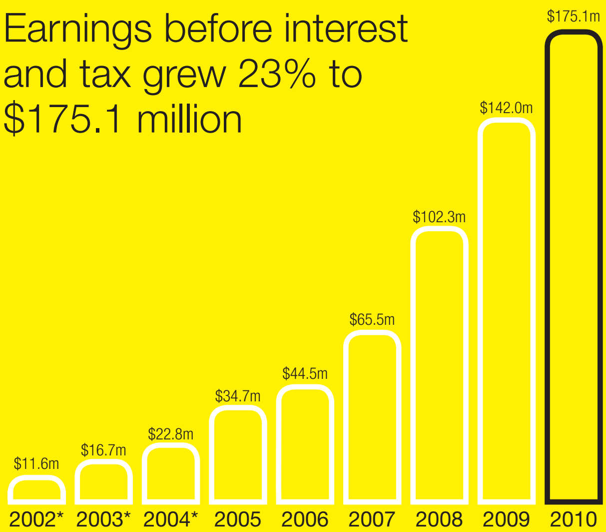
# Sales +17%

Sales grew 17% to $2.73 billion



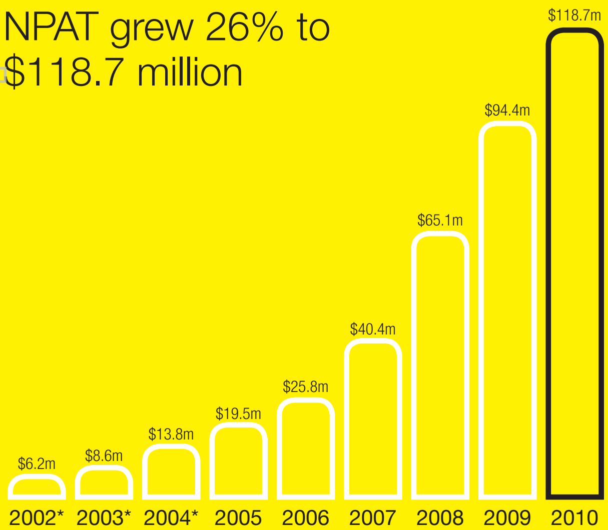

# EBIT +23%

Earnings before interest and tax grew 23% to $175.1 million



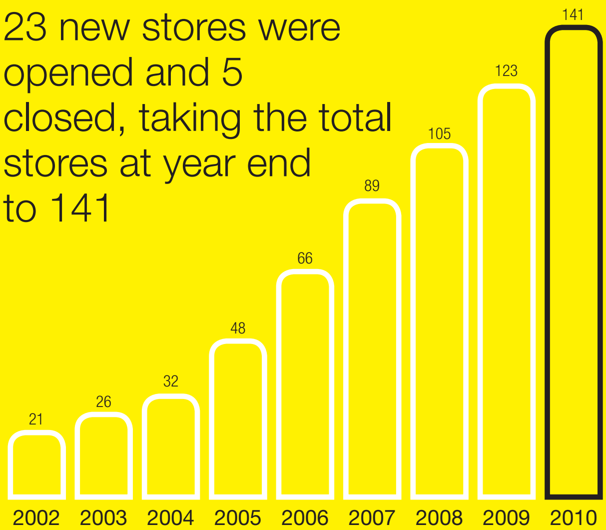

# NPAT +26%

NPAT grew 26% to $118.7 million




# Stores

23 new stores were opened and 5 closed, taking the total stores at year end to 141




*2002-2004 figures based on AGAAP

# Chairman's and Chief Executive Officer's Report

Dear fellow shareholder,

JB Hi-Fi Limited (referred to below as JB Hi-Fi or the Company) achieved revenue growth of 17%, EBIT growth of 23% and NPAT growth of 26% for the year ended 30 June 2010. During the year 23 stores were opened.

**Result**

JB Hi-Fi has delivered another record result with sales up 17.4% on the prior year. This was achieved through a combination of strong comparative stores sales growth, opening of 23 new stores, continued expansion of our product offering and the maturing of the 42 stores opened during the last two years.

The impact of the Global Financial Crisis first felt in the FY09 year continued through the FY10 year. We are indeed fortunate that Australia escaped recession with only a mild downturn in consumer spending growth. The Company continued to grow profitably throughout this period albeit at a slower rate to that enjoyed in prior years, a testament to the unique value proposition we deliver.

During the first half of the financial year we saw good comparable store growth. Comparable store growth in the second half of the financial year was impacted by cycling strong prior year growth driven by the government's economic stimulus program. We were particularly impacted by the Investment Allowance in the final quarter in FY09, where we experienced significantly strong sales in our computer category. At the time we all probably underestimated the impact of the stimulus, which not only shored up potential weaknesses that may have emerged but added incremental demand to the economy. All in all it was a very pleasing outcome with increased market share in all our major categories.

We have continued to see the emergence of new categories with the introduction of tablet PCs such as the Apple iPad. We have also seen product upgrades such as 3D TV and new generation smart phones. The digital switchover occurring progressively through to 2013, whilst providing some increased volume in FY10, should provide a good source of growth for flat panel TVs over the next few years.

Our ability to continue to deliver on our everyday low price promise is only possible with everyday low operating costs. The relentless pursuit by the Company to identify and eliminate waste and to improve productivity has resulted in a further reduction in our Cost of Doing Business (CODB) by 24 bps to 14.5% of sales. Over the last two years we have delivered a reduction in our CODB of 95 bps and at current levels we believe we have the most productive model of any of the listed retailers. This reduction in CODB has funded lower prices to customers whilst increasing returns to shareholders from an EBIT margin of 5.6% to 6.4% over the same period. Increasing sales and store productivity and the further unitisation of support office costs will continue to underpin our market position.

Gross margin at 21.8% was up on last year (21.6%), despite the growth of lower margin categories like computers. Increased sales of higher margin accessories and controlled discounting was driven by improved store sales training. Ongoing focus on shrinkage and obsolescence saw improvement in these areas. Margin was also supported by improved buying. New Zealand continues to operate at lower gross margins when compared to Australia, reflecting our recent market entry and relatively lower scale of operations.

Cash flow generated from operations was $152.1 million, reflecting strong cash generation from established stores. As the ratio of new stores to established stores lessens the Company has migrated from a net investor of cash to a net generator of cash. Debt remains at conservative levels, with net debt reducing to $17.9 million (last year $53.6 million), interest cover of 25.2 times and a fixed charges cover ratio of 3.9 times. Return on equity of 40.5%, reflects the low capital intensity of the business model.

At the end of the year we were operating 141 stores across Australia and New Zealand (130 branded JB Hi-Fi). Our rate of growth in part is determined by access to quality sites. We continue to secure around 13 to 15 sites annually and expect this to continue for at least the next five years. It is estimated that 18 stores will be opened in FY11.

The Board estimates that the market can sustain at least 160 JB Hi-Fi Tier 1(full size) stores before new store openings begin to have a material impact on existing store operations. The Company continues to identify and roll out a Tier 2 JB Hi-Fi store, which we anticipate will generate approximately 70% of the sales of a Tier 1 store. Six Tier 2 format stores opened during the current year. We estimate that the Company should be able to open 50 of these format stores. The Board and management are pleased with the performance of the Tier 2 format stores opened to date in both regional and metropolitan areas.

JB Hi-Fi continues to be able to attract and retain a knowledgeable and enthusiastic workforce as the rapid growth of the business provides tangible career progression with increased responsibility and compensation prospects.

JB Hi-Fi believes a key component of its success is the strong relationship it has built with its employees, which continues to be an ongoing focus for the Board and management.

JB Hi-Fi has had considerable success expanding into new product categories:

- Computers – Since entering the market in May 2006, we are pleased that we are now the number one retailer in the category. We are excited about the emerging tablet PC category, with the launch in May 2010 in Australia of Apple's iPad. We anticipate strong growth in the tablet sub-category during 2011 as other manufacturers release products to the market.
- Mobile telecommunications (including broadband) – In June 2007, JB Hi-Fi announced its entry into the mobile telecommunications market. While the telecommunications market is a large market in itself, with digital convergence typified by the success of the smart phones, the market complements many of JB Hi-Fi's existing categories including computers, portable audio, digital cameras and media and suits our customer base of young, mobile and tech savvy consumers. JB Hi-Fi's discount positioning and specialist sales people will ensure competitiveness with other retailers. Recently our telco partner, Telstra, has introduced more competitive mobile plans. Together with the recent launch of the Apple iPhone 4, we expect to see good growth in this category during FY11 and continue to believe this category will become increasingly important in future years.
- Flat panel televisions (LCD, LED, Plasma) – Increased market penetration driven by price deflation and the benefit of high definition has seen this category continue to grow strongly. We anticipate this strong growth will continue considering:
  - consumers are upgrading their panels more frequently, driven by shorter technology life cycles;
  - the relatively low penetration of panels with full high definition; and
  - the digital switchover, which will occur progressively through to 2013.

The new categories of computers and telecommunications are two of the largest markets in which we operate, and should assist in driving sales in our existing categories.

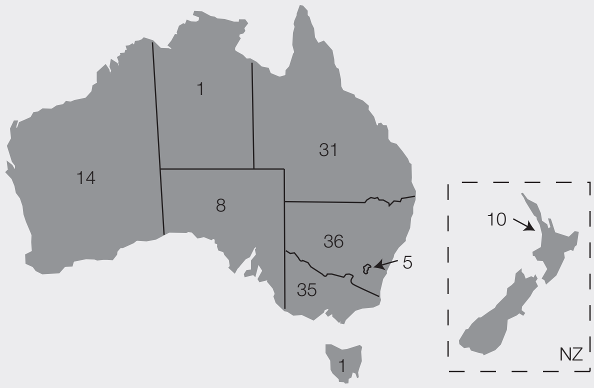
**New Zealand Expansion**

JB Hi-Fi entered the New Zealand market in March 2007 and at year end we had 10 JB Hi-Fi branded stores.

The company opened 1 new store in the year and grew comparative store sales by 13.4% (JB Hi-Fi only). We are confident that our customer proposition is resonating well in New Zealand and we will continue to see good growth in sales and margin during FY11.

During the year we closed the remaining Hill and Stewart stores which has enabled us to focus solely on the growth of the JB Hi-Fi brand.

**Total Stores: 141***
**(JB Aust. 120, CA 11, JB NZ 10)**




* As at 30 June 2010

**Terry Smart succeeds Richard Uechtritz as CEO**

After 10 years at the helm of the Company, Richard Uechtritz retired as CEO and was succeeded by Terry Smart. Richard led the management buy in with Terry in July 2000. At that time the Company was operating 10 stores (nine in Victoria and one in NSW) and had revenue of $135 million. Under Richard's leadership the Company successfully expanded to become a major Australian retailer and an ASX 100 Company. Along the way, Richard and the Company have received numerous awards in recognition of their success in making JB Hi-Fi a prominent retail brand and a favourite with customers and investors.

Since the management buy in Terry has been an Executive Director and Chief Operating Officer. In that time Terry had either direct control or high levels of exposure to each and every aspect of the business. As a Board, we were delighted that Terry accepted the offer to take on the CEO role and we are very confident that he will discharge this office with the same energy and success as he did with his previous role.

During the year the Company continued to add depth to the management team and we were particularly pleased with the appointment of Cameron Trainor as Merchandise Director. Cameron has a great track record in retail most recently within the supermarket division of Coles. Peter Green was promoted to the role of Operations Director following Terry's appointment as CEO. Peter has been with JB Hi-Fi nine years and was most recently National Operations Manager reporting to Terry.

**Board, Corporate Governance and Management Approach**

The relationship between the Board and management remains engaging and constructive. To date, JB Hi-Fi has continually exceeded the expectations set by the Board. It remains the Board's strategy to encourage experimentation with new products, merchandising formats, advertising and property locations in a controlled and responsible manner. The Board firmly believes that equity participation through JB Hi-Fi's employee option plan remains a critical tool in attracting new management, retaining existing management and rewarding performance whilst maintaining a strong alignment of interests with shareholders.

**Dividend**

JB Hi-Fi will pay a final dividend of 33 cents per share fully franked for the year ended 30 June 2010, up 14% from the same payment last year. This brings total dividends for the year to 66 cents per share, up 50% on last year. This represents a payout ratio of approximately 60%. The Company now funds all of the new store rollout from internally generated cash flow.

In increasing the dividends for FY10, the Board has considered the current and forecast financial performance of the business and anticipated capital requirements in the short to medium term, including the new store rollout program, ongoing capital expenditure and current and expected performance against key financial ratios. It is the Board's current objective to grow dividends in line with earnings in order to maintain an efficient capital structure.

In the absence of having strong investment opportunities, it is the view of the Board that we should return excess cash and franking credits to shareholders. In light of the volatility of recent trading we believe it is prudent to defer any such activity until after the important Christmas season.

**Outlook**

Sales in FY11 are forecast to grow by 17% to circa $3.2 billion. With strong levels of employment, steady interest rates and stable property prices, the macroeconomic drivers are suggestive of a positive retail environment. The combination of a high proportion of immature stores, the new store opening program and growth in a number of key categories should see the Company produce another record result in FY11.

Your Board and management remain focused on the key success drivers of the business – having the biggest range and the lowest prices, supported by talented and enthusiastic staff.

P. Elliott

**Patrick Elliott**
Chairman

**Terry Smart**
Chief Executive Officer

Melbourne,
1 September 2010

# Annual Report

for the financial year ended **30 June 2010**

## GOVERNANCE, ENVIRONMENTAL AND SOCIAL STATEMENTS

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. As one of Australia's leading retailers we are committed to investing in understanding how JB Hi-Fi can work with its suppliers and other stakeholders to ensure we continually advance our policies in this regard. We will continue to engage in an ongoing manner with our shareholders, investors, staff and other stakeholders to ensure JB Hi-Fi's Governance, Environmental and Social policies are appropriate, relevant and continue to develop.

## GOVERNANCE STATEMENT

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

The Board believes that JB Hi-Fi's policies and practices comply in all substantial respects with the ASX Corporate Governance Council Principles of Good Corporate Governance. JB Hi-Fi respects and values the rigour of the ASX Principles of Good Corporate Governance and Best Practice Recommendations. The Board believes that it has been compliant with the spirit of The Corporate Governance Principles and Best Practice Recommendations during the 2010 financial year.

The Board has determined having regard to the Company's current size, not to establish a Nominations Committee. The Board has retained this responsibility. The Board continually reviews and monitors developments in respect of corporate governance to ensure compliance with best practice.

## THE BOARD

### Role

The primary role of the JB Hi-Fi Board is to protect and enhance long-term shareholder value. The Board is accountable to shareholders for the performance of the Company, it directs and monitors the business and affairs of the Company on behalf of shareholders and is responsible for the Company's overall corporate governance.

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

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

A copy of the Board Charter can be found on the Company's website at www.jbhifi.com.au.

### Composition

The Board seeks to ensure that the combination of its members provides an appropriate range of experience, skills, knowledge and perspective to enable it to carry out its obligations and responsibilities. In reviewing the Board's composition and in assessing nominations for the appointment of non-executive directors, the Board uses its own internal resources to identify candidates for appointment as directors. External resources may also be used, if suitable candidates are not identified.

The Board considers that its current structure, size, focus, experience and use of committees enable it to add value to the Company and to operate effectively. The Board regularly reviews this balance.

JB Hi-Fi maintains a majority of non-executive directors on its Board. The Board currently comprises six directors, comprising five independent non-executive directors, including the Chairman, and one executive director, the Chief Executive Officer.

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

**Independence**

The JB Hi-Fi Board regards directors as independent directors if they are free from any business or other relationship that could compromise their ability to act in the best interests of the Company.

If a conflict of interest arises, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. 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 sales or purchases of the Company's shares.

**Selection and appointment of directors**

In considering Board membership, the directors are conscious of the need to ensure that Board members possess the diversity of skill and experience required to fulfil the Board's obligations. The Board considers nominations for appointment to the Board. Apart from the Chief Executive Officer, directors are subject to shareholder re-election by rotation at least every three years.

A copy of the procedure for the selection and appointment of Directors can be found on the Company's website at www.jbhifi.com.au.

**Board meetings**

The Board meets monthly for scheduled meetings. Dependent on business requirements, the Board may have such additional unscheduled meetings as the business of the Company may require. Prior to any meeting, the Directors receive all necessary Board papers. As well as holding regular Board meetings, the Board sets aside time to meet to comprehensively review business plans and Company strategy.

**Access to information and independent advice**

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

Pursuant to a deed executed by each director and the Company, a director also has the right to have access to all documents which have been presented at Board meetings or made available in relation to their position as director for a term of 7 years after ceasing to be a director or such longer period as is necessary to determine relevant legal proceedings that commenced during this term.

**Code of ethics**

JB Hi-Fi acknowledges the need for directors, executives and employees to observe the highest ethical standards of corporate behaviour. JB Hi-Fi has adopted a Code of Ethics to provide an employee with guidance on what the Company deems is acceptable behaviour.

The key elements of the code are:

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

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

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

**Shareholdings of directors and employees**

Directors' current shareholdings are detailed in the Company's Annual Report and are updated by notification to the ASX as required. The Board has approved a Share Trading Policy for dealing in securities.

Directors and employees may only trade in JB Hi-Fi shares and any other JB Hi-Fi securities during designated Trading Periods, which are conducted several times each year. These Trading Periods will follow the release of JB Hi-Fi's Final Results (Aug/Sept), Interim Results (Feb/March) and the Annual General Meeting (Oct/Nov), for a period of four weeks. Any transaction conducted by directors in shares of the Company is notified to the ASX.

A copy of the Share Trading Policy can be found on the Company's website at www.jbhifi.com.au.

## INTEGRITY OF REPORTING

The Company has put in place controls designed to safeguard the Company's interests and to ensure the integrity of its reporting. These controls aim to ensure that the Company complies with all regulatory requirements and community standards.

Both the Chief Executive Officer and Chief Financial Officer are required to state in writing to the Board that:

a. the Company's financial reports represent a true and fair view, in all material respects, of JB Hi-Fi's financial condition and operational results and are in accordance with relevant accounting standards;

b. the statement in (a) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and

c. the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

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. The Company's external audit firm was most recently appointed in 2002. The audit engagement partner is rotated every five years in line with the agreement between the audit firm and JB Hi-Fi.

Information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners can be found on the Company's website at www.jbhifi.com.au.

**Continuous disclosure**

The Company seeks to provide relevant and timely information to its shareholders and is committed to fulfilling its obligations to the broader market for continuous disclosure. JB Hi-Fi aims to ensure timely provision of equal access to material information about the Company.

The Board has approved a continuous disclosure policy to ensure that the procedures for identifying and disclosing material and price sensitive information in accordance with the Corporations Act and ASX Listing Rules are clearly articulated. This policy sets out the obligations of employees relating to the type of information that must be disclosed. The Company Secretary, in consultation with the Chief Executive Officer and Chairman, 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.

**Shareholders communications**

The Company's website www.jbhifi.com.au currently carries the following information for shareholders:

- All market announcements and related information which is posted immediately after release to the ASX;
- Details relating to the Company's directors and senior management; and
- Board and Board committee charters and other corporate governance documents.

The Company will request that the external auditor attend its Annual General Meeting and be 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 Board has delegated to the Audit and Risk Management Committee responsibility for overseeing the implementation of policies and procedures aimed at ensuring that the Company conducts its operations in a manner that manages risk to protect its people, the environment, Company assets and reputation as well as to realise opportunities. JB Hi-Fi's policy is to consider the balance of risk and reward, as far as practicable, in order to optimise the returns gained from its business activities and to meet the expectations of its shareholders. A copy of the Company's Risk Oversight and Management Policy can be found on the Company's website at www.jbhifi.com.au.

### Board performance

JB Hi-Fi monitors and evaluates the performance of its Board, its Board committees, individual directors, and key executives in order to fairly review and actively encourage enhanced Board and management effectiveness. It has a range of processes in place to evaluate Board performance, Board Committees, individual directors and executives. A description of the process for Board performance evaluation, its committees and individual directors, and key executives can be found on the Company's website at www.jbhifi.com.au.

## DIRECTORS' FEES AND EXECUTIVE REMUNERATION

### Directors' fees

In line with the JB Hi-Fi Constitution, total remuneration for non-executive directors must not exceed $900,000 per annum or any other amount per annum determined by the Company in an Annual General Meeting. The Board, within the aggregate amount of $900,000, determines non-executive directors' individual fees.

The details of remuneration paid to each non-executive director during the financial year are included in the Company's Annual Report. Directors receive superannuation in accordance with statutory requirements. In determining fee levels, the Board reviews data on fees paid by comparable companies and where appropriate, may receive expert independent advice regarding remuneration levels required to attract and compensate directors of the appropriate calibre and for the nature of the directors' work and responsibilities.

Non-executive directors do not participate in any incentive schemes and are not entitled to receive retirement allowances.

### Executive remuneration

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

At JB Hi-Fi, remuneration of senior executives is evaluated against comparative positions in similar companies and industries and comprises (a) fixed remuneration and (b) variable remuneration consisting of (i) short-term incentives (annual bonus based on specified performance targets as agreed with the executive) and (ii) long-term incentives (options under the JB Hi-Fi Executive Share Option Plan).

The Board is aware of the Executive Equity Plan Guidelines, issued by the Investment and Financial Services Association (IFSA) (now the Financial Services Council) in April 2007. The Board is satisfied that its executive remuneration policies, specifically as they relate to the executive share option plan (as detailed in the Company's Annual Report), are consistent with the aims, objectives and outcomes detailed in IFSA guidance note no.12.

The amount of remuneration, both monetary and non-monetary, for the executives who are directly accountable and responsible for the strategic direction and operational management of the Company during the year are included in the Company's Annual Report.

Details of the existence and conditions of all share and option schemes currently in operation, including the details of performance hurdles, are summarised and included in the Company's Annual Report and have been lodged with the ASX.

## BOARD COMMITTEES

The Board has established charters for the operation of its committees. The charters are reviewed annually and objectives are set for each committee. The minutes of these committees are circulated to the Board.

**Audit and Risk Management Committee**

The Board has established an Audit and Risk Management Committee that has a formal charter.

The committee is charged with, in part, (a) assisting the Board in fulfilling its oversight of the reliability and integrity of financial management, accounting policies, asset management, financial reporting and disclosure practices; (b) advising the Board on matters of internal control; (c) establishing and maintaining processes to ensure that there is compliance with all applicable laws, regulations and company policy; and (d) establishing and maintaining adequate systems of internal control and risk management.

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

The Audit and Risk Management Committee comprises three non-executive directors all of whom are independent with relevant financial, commercial and risk management experience and an independent chairperson who is not the chairperson of the Board:

- Greg Richards: Ongoing member and appointed chairman of committee 24 November 2009;
- James King: Ongoing member of committee; and
- Gary Levin: Ongoing member of the committee.

Details of the qualifications of each of the 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 2010 Financial Year are listed in the Director's Report of the Annual Report. Directors who are not members of a committee may attend any committee meeting following consultation with the Chairperson of the relevant committee.

**Remuneration Committee**

The Board has established a Remuneration Committee that has a formal charter.

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

A copy of the Remuneration Committee Charter can be found on the Company's website at www.jbhifi.com.au.

The Remuneration Committee comprises three directors:

- Patrick Elliott: Ongoing member and chairman of committee;
- Will Fraser: Ongoing member of committee; and
- Greg Richards: Ongoing member of committee, appointed 1 January 2010.

Richard Uechtritz resigned from the Remuneration Committee effective 30 June 2009.

The Remuneration Committee meets as required. Details of the meetings held and members' attendance during the 2010 Financial Year are listed in the Director's Report of the Annual Report.

**Nominations Committee**

The Board, having regard to the size of the Company, has not established a Nominations Committee.

The Board is charged with, in part, selecting, appointing and regularly evaluating the performance of, determining the remuneration of, and plan for the succession of the Chief Executive Officer; establishing formal and transparent procedures for the selection and appointment of new directors to the Board; regularly reviewing the succession plans in place for Board membership to ensure that an appropriate balance of skills, experience and expertise is maintained; and instituting internal procedures for evaluating Board performance, individual directors and Board Committees.

A copy of the Board Charter and the Board's policy for the appointment of directors can be found on the Company's website at www.jbhifi.com.au.

## ENVIRONMENTAL STATEMENT

JB Hi-Fi promotes environmental sustainability within our company. There are currently no mandatory reporting requirements which the Company is required to comply with. We are committed to several voluntary initiatives that ensure we are striving towards operating our business with minimal impact on the Australian and New Zealand environments.

JB Hi-Fi's Code of Conduct, which is issued to all employees states:

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

### Carbon Disclosure Project

In 2010 JB Hi-Fi for the second year responded to the Carbon Disclosure Project (CDP). The CDP is a not for profit organisation that collates and reports company environmental actions to external users such as investors and other corporations. JB Hi-Fi has systems in place to ensure we are reporting and monitoring energy consumption and greenhouse gas emissions.

### National Packaging Covenant

JB Hi-Fi is a signatory to the National Packaging Covenant. This is a voluntary program involving both Government and industry to ensure the environmental impact from packaging is reduced, measured and understood. JB Hi-FI is committed to the principles of the National Packaging Covenant and will continue to work with employees, packaging and packaged goods suppliers to ensure that members of our packaging supply chain conform to the requirements of the National Packaging Covenant.

### Support Office

The JB Hi-Fi Support Office is located in an environmentally friendly "five star energy rated" office building. In addition to the underlying efficiency of the building, the follow strategies have been put in place:

- Recycling facilities for paper, cans and cardboard with substantial signage to encourage awareness and ensure compliance; and
- Working with our centre management, contract cleaners and building management to ensure waste is disposed of correctly.

### Mobile Muster

JB Hi-Fi is a signatory to the Mobile Muster, which is a service that allows consumers to return mobile phones for recycling. JB Hi-Fi has completed the roll-out of the Mobile Muster program and signage in communication departments in all stores in 2010 where consumers can take postage-paid envelopes to return used phones as they update to new models.

### Cartridges 4 Planet Ark

JB Hi-Fi launched Cartridges 4 Planet Ark in store in April 2010. This program enables consumers to drop used cartridges at any JB Hi-Fi store, they are then collected and returned for recycling.

### Store recycling initiatives

JB Hi-Fi stores are equipped to dispose of waste. All stores have paper and cardboard recycling bins. Used printer toner cartridges are recycled on the delivery of replacements cartridges.

### E-Waste

JB Hi-Fi supports a nationally consistent approach towards collection and recycling of end of life televisions and computers. The Australian Government is currently proposing, through its National Waste Policy, to allocate primary responsibility for dealing with the waste associated with end of life televisions and computers to the manufacturer or importer of these products. Importers or manufacturers will join or form a "producer responsibility organisation" or PRO, to arrange collection and recycling of televisions and computers. Consumers will be responsible for ensuring that their unwanted televisions and computers are left at designated recycling collection points set up by the PRO. This approach is expected to be operational by 2011.

### Product Efficiency

Minimum Energy Performance Standards require retailers to ensure all televisions have energy efficiency labels. JB Hi-Fi and our suppliers have met these initiatives since their implementation on 1 October 2009.

## SOCIAL STATEMENT

JB Hi-Fi recognises the importance of social matters to our shareholders, suppliers and customers. As one of Australia's leading retailers we are committed to understanding how JB Hi-Fi can work with our staff, customers and suppliers to ensure we give back to the community.

### Workplace Giving Program - "Helping Hands"

First introduced in 2008, "Helping Hands" is the signature Workplace Giving program through which JB Hi-Fi contributes to various charities. Workplace Giving programs have proven to be a very effective way for employers and employees to join together to support the community. JB Hi-Fi works with The Australian Charities Fund (ACF) to develop and maintain the program and in doing so contributes to ACF's vision of seeing significant social impact through employers and community organisations working together.

In less than 2 years program participation has grown to over 800 employees, each making weekly contributions. This is a 220% increase in participation this year. Through this program, JB Hi-Fi directors, executives and employees are able to donate to eight registered charitable organisations. All donations are matched by the Company, effectively doubling the financial giving to our community partners. This year we have raised over $700,000 and since its inception, the Company and its employees are proud to have raised more than $1,100,000.

Our current charity partners are Bush Heritage Australia, Inspire Foundation, Medicins Sans Frontieres (Doctors without Borders), Sunrise Children's Village (Cambodia), The Song Room, RedKite, Fred Hollows Foundation and Oxfam. The program initially commenced with five charity partners, but has increased to eight charities in 2010 after employees identified RedKite, Fred Hollows Foundation and Oxfam as causes they considered important.

Through the combined giving of the Company and its employees, we continue to make a real difference to the charities in the program.

### "Change for Change" – Donation Boxes in our Stores

The Helping Hands program has also driven the placement of "Change for Change" boxes in all Victorian stores. These boxes have been placed at point of sale locations to encourage donations from our customers. All donations collected are shared evenly amongst our eight charity partners. The roll out of the Change for Change boxes commenced in Victoria in May 2010 and the initial results have been very encouraging. We are delighted our staff and customers are generously contributing to this initiative. As a result of the successful trial in Victoria, it is expected the national rollout will be completed by September 2010.

### "Employer Leadership Initiative" – Founding Partner

Part of JB Hi-Fi's commitment to growing workplace giving in Australia is our belief that it is the most cost effective and efficient way for community organisations to grow sustainable revenue.

To further our support of the growth of workplace giving in Australia, we have become a founding partner of The Australian Charities Fund's "Employer Leadership Initiative". Members of the Employer Leadership Initiative have demonstrated best practice in engaging with their employees around community issues and are committed to leading the growth of the sector with ACF. As a founding partner, JB Hi-Fi sees a real opportunity to play a driving role in encouraging a sustainable, diverse and robust not for profit sector.

JB Hi-Fi will join approximately ten other leading Australian employers to help lead the way in growing social impact and community engagement through engaged employee giving. This initiative will be launched in October 2010.

### Local Charitable Giving

In addition JB Hi-Fi donates cash or product to a range of causes (such as charities, hospitals, sporting clubs and community groups) during the year on an ad hoc basis. JB Hi-Fi empowers shop managers with a discretionary donation spend pool for local community causes.

## DIRECTORS' REPORT

The directors of JB Hi-Fi Limited ("the Company") submit herewith the annual financial report of the consolidated entity ("the Group") for the financial year ended 30 June 2010. 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 Patrick Elliott**<br>Chairman<br>Non-Executive Director<br>B.Comm, LLB,<br>MBA (Hon) | Mr Elliott is an executive director of Next Capital Pty Limited, a private equity manager. He is also a non-executive director of Steelforce Holdings Pty Limited and RPG Holdings Pty Ltd. Prior to founding Next Capital Pty Limited, Mr Elliott was an executive director of Macquarie Direct Investment Limited, the private equity division of Macquarie Bank Limited. Mr Elliott was appointed to the Board in July 2000 and was Chairman from July 2000 to March 2006 and was reappointed Chairman in September 2007. Mr Elliott is also the Chairman of the Remuneration Committee. |
| **Dr Will Fraser**<br>Non-Executive Director<br>PhD | Dr Fraser retired in 1999 as Chairman and Managing Director of Kodak Australasia Pty Ltd, an appointment that followed two years in London as a Corporate Vice President of Eastman Kodak and Regional Business General Manager, Consumer Imaging of Europe, Africa, India and the Middle East region. He is currently a member of the Board of Trustees of the Baker Foundation. Dr Fraser was appointed to the Board in September 2003. Dr Fraser is currently a member of the Remuneration Committee. |
| **Mr James King**<br>Non-Executive Director<br>B.Comm, FAICD | Mr King has over 30 years experience in major companies in Australia and internationally. He was previously with Foster's Group Limited as Managing Director Carlton & United Breweries and Managing Director Foster's Asia. Prior to joining Fosters, he spent six years in Hong Kong as President of Kraft Foods (Asia Pacific). He is currently a non-executive director of Navitas Ltd, Trust Company Ltd and Pacific Brands Ltd. Mr King is also Chairman of Juvenile Diabetes Research Foundation (Victoria) and on the Council of Xavier College. Mr King is a Fellow of the Australian Institute of Company Directors. Mr King was appointed to the Board in October 2003 and was Chairman from March 2006 until September 2007. Mr King is currently a member of the Audit and Risk Management Committee. |
| **Mr Gary Levin**<br>Non-Executive Director<br>B.Comm, LLB | Mr Levin has over 25 years experience on the boards of public and private companies in the retail, investment and renewable energy fields in executive and non-executive roles. He is currently on the board of a number of private investment companies. Mr Levin holds a Bachelor of Commerce and Bachelor of Laws from the University of New South Wales and is a member of the New South Wales Bar Association and the Australian Institute of Company Directors. Mr Levin has been a director and member of the Audit and Risk Management Committee of JB Hi-Fi since November 2000. |
| **Mr Greg Richards**<br>Non-Executive Director<br>B.Ec (Hons) | Mr Richards has 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. He is also currently involved as a consultant to Upstream Print Solutions Group and works in a voluntary capacity with several not-for-profit entities. Mr Richards was appointed to the Board in December 2007. Mr Richards is currently the Chairman of the Audit and Risk Management Committee and a member of the Remuneration Committee. |
| **Mr Terry Smart**<br>Chief Executive Officer<br>and Executive Director | Mr Smart has over 15 years experience in retailing. He is a former director and General Manager of Kodak's retail operations. Mr Smart led the implementation of JB Hi-Fi's management information systems. He is responsible for the Group's systems and processes which underpin the store operations. Mr Smart joined the management buy-in of JB Hi-Fi in July 2000 and was appointed CEO in May 2010. |

| | |
|---|---|
| **Mr Richard Uechtritz** | Mr Uechtritz has over 20 years experience in retailing. He was co-founder of Australia's two leading photo chains, Rabbit Photo and Smith Kodak Express. Mr Uechtritz was also a director of Kodak (Australasia) Pty Ltd. Mr Uechtritz led the management buy-in of JB Hi-Fi in July 2000. Mr Uechtritz was CEO and an Executive Director until his resignation from these positions in May 2010. He currently acts as a consultant to the Group. |

The aforementioned directors held office for the whole financial year and since the end of the financial year except for:

- Mr Uechtritz – resigned from his position as CEO and Executive Director on 28 May 2010 and currently acts as a consultant to the Group.

**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* |
|---|---|---|
| **Mr Gary Levin** | Babcock & Brown Environmental Investments Limited | January 2002 to May 2009 |
| **Mr James King** | Navitas Limited (formerly IBT Education Limited) | Since 2004 |
| | Trust Company Limited | Since February 2007 |
| | Pacific Brands Limited | Since September 2009 |
| | Babcock & Brown Environmental Investments Limited | September 2006 to May 2008 |

| *Company Secretary* | |
|---|---|
| **Mr Richard Murray**<br>B.Comm, Grad.Dip. Applied Finance & Investment, CA | Mr Murray is a Chartered Accountant with over 15 years experience in finance and accounting. Mr Murray joined JB Hi-Fi as Chief Financial Officer in 2003 and took the business through the IPO (Initial Public Offer) process. Mr Murray is assisted in his role as Company Secretary by an external consultant specialising in company secretarial processes and procedures, who attends all Board and Committee meetings. |

**Principal activity**

The Group's principal activity in the course of the financial year was the retailing of home consumer products from stand alone destination sites and shopping centre locations, offering a wide range of leading brands with particular focus on consumer electronics, electrical goods and software including music, games and movies.

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

**Review of operations**

The consolidated profit after tax of the Group for the financial year was $118,652,000 (2009: $94,438,000) which is 25.6% greater than the consolidated profit after tax for the previous financial year.

Consolidated sales for the financial year were $2,731,320,000 (2009: $2,327,266,000), which is 17.4% greater than the consolidated sales for the previous financial year.

In preparing the review of operations, the directors have omitted material that would otherwise have been included under s.299A(1)(c) concerning the Group's business strategies and prospects for future financial years, as they believe it is likely to result in unreasonable prejudice to the Group or any entity that is part of the Group.

**A. OVERVIEW**

Objectives of the Group are to create shareholder value through a roll out of the Group's branded retail stores across Australia and New Zealand, in both stand alone destination sites and shopping centre locations. The cornerstone of the Group's success has been, and will continue to be, its ability to consistently offer everyday low prices. The Group is able to do this through the scale of its operations, high stock turnover and low cost of doing business.

Management consider the following indicators in assessing the performance of the business:

- absolute and comparable store sales growth;
- gross margin by store and product category;
- cost of doing business;
- store earnings before interest and tax (EBIT) contribution;
- EBIT margin;
- earnings per share (EPS);
- financial covenants and measures including gearing, interest cover and fixed charges ratio;
- working capital measures including inventory and creditor turnover; and
- return on equity and return on invested capital.

**Dynamics of the Group**

The following factors are considered important in understanding the dynamics of the Group and the main opportunities and threats that may have a major effect on results regardless of whether they were significant in the period under review.

*Opportunities:*

- JB Hi-Fi offers one of Australia and New Zealand's largest ranges of home entertainment and electrical products at discounted prices, positioned to appeal to all customers, through its JB Hi-Fi and Clive Anthonys branded stores. The Group maintains a low cost operating model designed to underpin competitive pricing in its store network.
- JB Hi-Fi's strategic initiatives for growth include:
    - targeting high growth segments of the home entertainment market;
    - continued roll-out of JB Hi-Fi stores in Australia and New Zealand;
    - ensuring recently opened stores mature rapidly and profitably; and
    - continuing to improve the efficiency and profitability of existing stores.

*Threats:*

- there are a number of factors, both specific to JB Hi-Fi and of a general nature, which may threaten both the future operating and financial performance of the Group and the outcome of an investment in JB Hi-Fi. There can be no guarantee that JB Hi-Fi will achieve its stated objectives or that forward looking statements will be realised;
- the operating and financial performance of JB Hi-Fi is influenced by a variety of general economic and business conditions, 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;
- competition – the markets in which JB Hi-Fi operates are fragmented and competitive;
- the Group's financial performance or operating margins could be adversely affected if the actions of competitors or potential competitors become more effective, or if new competitors enter the market, and JB Hi-Fi is unable to counter these actions;
- leasing arrangements – the ability to identify suitable sites and negotiate suitable leasing terms is key to the Group's growth plans. Further, management's ability to renegotiate acceptable lease terms for existing stores where leases are due to expire is vital to ongoing profitability; and
- operating costs – the Group's ability to consistently offer low prices and operate profitably is dependent on a combination of the scalability of its operations, relatively high stock turns and low cost operating structure. It is important that the Group maintain these drivers of profitability.

**B. REVIEW OF PERFORMANCE**

Sales and earnings performance:

- the Group recorded a full year net profit after tax of $118,652,000 for the 12 months ending 30 June 2010, up 25.6% on the previous corresponding period of $94,438,000;
- total sales were up 17.4% to $2,731,320,000 and comparable store growth was 4.8% (Australia: 4.5%, New Zealand 13.4%);
- gross margin was 21.8% for the period, up 12 bps from the previous period;
- EBIT was $175,110,000, up from $141,967,000 last year and the resulting EBIT margin was 6.4%, up from 6.1% for same period last year;
- cost of doing business continued to improve at 14.5% for the period, decreasing 24 bps from 14.7% for the same period last year; and
- the Group opened 23 new JB Hi-FI stores (Aust: 22, NZ: 1), rebranded one Hill & Stewart store to JB Hi-Fi and closed the remaining 5 Hill & Stewart stores during the 2010 financial year.

Material developments:

- there were no material developments during the 2010 financial year.

Overall returns to shareholders:

- refer to details of dividends paid and declared by the Company on page 16.

**C. DETAILS OF INVESTMENTS FOR FUTURE PERFORMANCE**

- investments of $54,460,000 were made during the financial year in capital expenditure projects. The majority of this capital expenditure related to the 23 new stores opened during the period. These stores are anticipated to contribute towards solid earnings growth in the 2011 financial year.

**D. REVIEW OF FINANCIAL CONDITIONS**

- the capital structure of the Group has remained stable during the period. The increase in equity during the period related to ordinary shares issued to employees under the Employee Share Option Plan. The Group's net debt decreased from $53,568,000 to $17,889,000.
- the key financial covenants included in the Group's financing facilities are the leverage ratio and fixed charges cover.
- the Group had total interest bearing liabilities of $70,000,000 at the end of the period. The Group repaid $35,000,000 of these interest bearing liabilities on 3 August 2010. The Group has total debt facilities of $208,125,000, split between a senior debt facility of $145,000,000, expiring in December 2011, and an overdraft facility of $63,125,000. The overdraft facility is renewable annually and has an additional seasonal bank overdraft facility of $25,000,000 in February to April.

**E. RISK MANAGEMENT AND CORPORATE GOVERNANCE PRACTICES**

The Board has delegated to the Audit and Risk Management Committee responsibility for overseeing the implementation of policies and procedures aimed at ensuring the Group conducts its operations in a manner that manages risk to protect its people, the environment, Group assets and its reputation as well as to realise opportunities. JB Hi-Fi's policy is to consider the balance of risk and reward, as far as practicable, in order to optimise the returns gained from its business activities and to meet the expectations of its shareholders.

**Changes in state of affairs**

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

**Subsequent events**

The Group repaid $35,000,000 of interest bearing liabilities on 3 August 2010. There have been no other matters or circumstances occurring subsequent to the end of the financial year, that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

### Future developments

Disclosure of information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Accordingly, this information has not been disclosed in this 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 2009, as detailed in the directors' report for that financial year, an interim dividend of 15.0 cents per share and a final dividend of 29.0 cents per share, both franked to 100% at 30% corporate income tax rate, were paid to the holders of fully paid ordinary shares on 10 March 2009 and 9 September 2009 respectively.

In respect of the financial year ended 30 June 2010, an interim dividend of 33.0 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 5 March 2010.

In respect of the financial year ended 30 June 2010, the directors have declared the payment of a final dividend of 33.0 cents per share franked to 100% at 30% corporate income tax rate, to be paid to the holders of fully paid ordinary shares on 3 September 2010. This represents a payout ratio of 60% for the financial year.

### Indemnification of officers and auditors

As provided under the constitution, the Company indemnifies directors and senior 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. During the financial year, the Company has paid a premium in respect of a contract, insuring the directors and senior employees 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 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 financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 13 Board meetings, 2 Remuneration Committee meetings and 6 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* |
| Mr P. Elliott | 13 | 13 | 2 | 2 | – | – |
| Mr J. King | 13 | 13 | – | – | 6 | 6 |
| Mr G. Levin | 13 | 13 | – | – | 6 | 6 |
| Dr W. Fraser | 13 | 13 | 2 | 2 | – | – |
| Mr G. Richards[(i)] | 13 | 13 | 2 | 2 | 6 | 6 |
| Mr R. Uechtritz | 12 | 12 | – | – | – | – |
| Mr T. Smart | 13 | 13 | – | – | – | – |

(i) Mr Richards was appointed to the Remuneration Committee effective 1 January 2010.

### Directors' shareholdings

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

| Directors[i] | Fully paid ordinary shares – direct number | Fully paid ordinary shares – indirect number | Executive share options – direct number | Executive share options – indirect number |
|---|---|---|---|---|
| Mr P. Elliott | 199,732 | 10,000 | – | – |
| Mr J. King | – | 32,258 | – | – |
| Mr G. Levin | 30,000 | – | – | – |
| Dr W. Fraser | – | 6,451 | – | – |
| Mr G. Richards | – | 23,000 | – | – |
| Mr T. Smart[ii] | 1,500,000 | – | 396,045 | – |

(i) Mr Uechtritz resigned from his position as CEO and Executive Director on 28 May 2010 and now acts as a consultant to the Group. At the date of his resignation, Mr Uechtritz held 1,000,000 ordinary shares and 621,923 share options.

(ii) Excludes any options that may be approved by the Board in August 2010. The issue of any options to Mr Smart, an executive director of the Company, is also subject to shareholder approval at the Company's Annual General Meeting in October 2010.

### Remuneration report (audited)

### Details of key management personnel

The following persons acted as directors of the Company during and since the end of the financial year:

| | |
|---|---|
| Mr P. Elliott | Chairman, Board and Remuneration Committee and Non-executive Director |
| Mr G. Richards | Chairman, Audit and Risk Management Committee and Non-executive Director |
| Mr G. Levin | Non-executive Director |
| Dr W. Fraser | Non-executive Director |
| Mr J. King | Non-executive Director |
| Mr T. Smart [i] | Chief Executive Officer and Executive Director |
| Mr R. Uechtritz[ii] | |

The highest remunerated Group executives for the 2010 financial year were:

| | |
|---|---|
| Mr T. Smart [i] | Chief Executive Officer and Executive Director |
| Mr R. Murray | Chief Financial Officer |
| Mr S. Browning | Marketing Director |
| Mr C. Trainor | Merchandise Director |
| Mr P. Green | Operations Director |
| Mr R. Uechtritz[ii] | |

(i) Mr Smart was appointed CEO on 31 May 2010.

(ii) Mr Uechtritz resigned from his position as CEO and Executive Director on 28 May 2010 and currently acts as a consultant to the Group.

### Remuneration policy for directors and executives

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

### Non-executive director remuneration

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.

With regard to the setting of non-executive director's remuneration, the Company seeks to ensure director fees are at or about the 50th percentile of its relevant peer group. The Remuneration Committee undertook its bi-annual review of non-executive director's fees in preparation for the Annual General Meeting in October 2009. The Remuneration Committee received guidance from an independent remuneration consultant and also obtained relevant benchmark data of appropriate fees for non-executive directors in companies of similar size (sales, earnings, market capitalisation etc).

The remuneration package for the 2010 financial year for non-executive directors was $105,000 per annum and $240,000 per annum for the Chairperson. In addition, non-executive directors (excluding the Chairperson) receive fees of $10,000 per annum, per Board committee to which they are appointed, except the Chairperson of the Audit and Risk Management Committee who receives fees of $25,000 per annum. The remuneration for the 2009 financial year, for non-executive directors was $90,000 per annum and $195,000 per annum for the Chairperson.

It is the policy of the Company not to pay lump sum retirement benefits to non-executive directors. 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. Some non-executive directors, as a result of their personal superannuation circumstances, have notified the Company that they would prefer that their superannuation contributions are received as increased Board fees. Directors also have the right to enter into salary packaging arrangements with the Company. The result of these arrangements is no net increase to the cost of directors' remuneration to the Company.

It is the policy of the Company to not have any elements of non-executive director remuneration at risk. That is, non-executive directors do not receive any bonus payments and are not entitled to participate in the Executive Share Option Plan.

### Group director and executive remuneration

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

With regard to the setting of Group executive remuneration, the Company seeks to ensure remuneration packages are set at or about the 75th percentile, inclusive of full performance related payments. The Remuneration Committee then considers current market conventions with regard to the splits between fixed, short-term and long-term incentive elements. The Remuneration Committee received formal advice from an independent remuneration consultant in determining the appropriate remuneration packages for the 2010 financial year. This advice was considered an appropriate basis for determining the 2011 remuneration packages.

With regard to the structure of the Group executive remuneration packages and the splits between fixed, short term incentives and long term incentives, the Remuneration Committee consider the following target bands appropriate:

| Elements of remuneration | Target proportion of maximum total remuneration package | |
|---|---|---|
| Fixed | Chief Executive Officer | 45% |
| | Group Executives | 50% - 60% |
| Short-term incentives | Chief Executive Officer | 30% |
| | Group Executives | 20% - 30% |
| Long-term incentives | Chief Executive Officer | 25% |
| | Group Executives | 20% |

There may be reasons why the structure of a Group executive's package may not align with the target bands. If this situation arose, it would be the Company's objective to adjust a particular executive's package to align with the target bands over time. The most likely explanation for any divergence from the target bands is where a new executive joins the Company or an executive is promoted during the period. Where the transition to a Group executive salary package results in the structure of the package falling outside the target bands, it is likely this divergence would not be significant in the overall context of the package.

The Board is aware of the Executive Equity Plan Guidelines, issued by the Investment and Financial Services Association (IFSA) (now the Financial Services Council) in April 2007. The Board is satisfied that its executive remuneration policies, specifically as they relate to the executive share option plan (as detailed in this Annual Report), are consistent with the aims, objectives and outcomes detailed in the IFSA guidance note no.12.

| Elements of remuneration | Summary of performance condition |
|---|---|
| Fixed Remuneration<br>▪ Base salary packages include base salary, motor vehicle allowances and superannuation | No elements are dependent on performance conditions. |
| Short-term Incentive<br>▪ Cash bonus | Under the Group's short-term incentive program, Group executive directors' and executives' annual cash bonus payments are based on performance against:<br>i. annual budgets;<br>ii. business plans; and<br>iii. other relevant qualitative objectives such as corporate governance, investor relations, succession planning and human capital development.<br>The Group undertakes a rigorous and detailed annual planning and budgeting process. The Remuneration Committee, in considering the short-term performance of Group executive directors and executives, considers the most relevant short-term performance conditions to be achieving or exceeding annual budgets, business plans and relevant qualitative objectives.<br>2010 short term incentive elements and the Group executives' performance against those elements are detailed in the following table: |

| *Element* | *Criteria* | *Target achieved* | *% of Maximum STI paid* |
|---|---|---|---|
| Base ST incentive | Achievement of budgeted 2010 NPAT | Yes | 100% |
| Stretch Target 1 | Exceeding budgeted NPAT by 7% | Yes | 100% |
| Stretch Target 2 | Exceeding budgeted NPAT by 10%. Note that the amount paid is determined on a linear basis relative to achieving the 7% and 10% stretch targets. | Partial | 72% |
| Qualitative Bonus[i] | Relevant qualitative objectives such as corporate governance, investor relations, succession planning and human capital development. | Yes | 100% |

[i] Only the Chief Executive Officer's short-term incentive package includes a qualitative element.

| Elements of remuneration | Summary of performance condition |
|---|---|
| Long-term Incentive<br>▪ Equity options | Options under the Executive Share Option Plan are issued to Group executive directors and executives as follows:<br>*Group executive directors and executives*<br>All current options issued to Group executive directors and executives under the Group's long-term incentive program include a performance hurdle requiring compound annual EPS growth of between 10% and 20% per annum. The Remuneration Committee considers this equity performance linked remuneration structure is effective in aligning the long-term interests of Group executive directors, executives and shareholders. EPS hurdles are tested each year, to the extent a hurdle is not achieved in one year, the hurdle is reassessed in each subsequent year, until the earlier of the hurdle is achieved or the option expires. In regard to 2010, Group executive directors and executives have achieved all EPS hurdles in relation to options which have or will vest in relation to the 2010 period.<br>It is anticipated that all long-term incentives issued to Group executive directors and in subsequent financial periods will continue to be subject to appropriate performance conditions that ensure an alignment with the long-term interests of shareholders. |

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

The Board's current policy does not allow Group executives to limit their exposure to risk in relation to their equity options without prior consultation and approval of the Board. Group executives are annually required to sign a declaration that they are in compliance with all elements of the JB Hi-Fi Share Trading Policy and have not entered into any arrangements to limit their exposure to the risk in relation to their equity options in the Company. These declarations have been received in relation to the 2010 financial year from all Group Executives.

**Key terms of employment agreements**

All Group executives are employed under standard Company employment agreements. With the exception of the Chief Financial Officer, none of these agreements provide for termination conditions or payments. The Board considers that the significant equity holding of Group executives mitigates any risk of not having formal termination clauses.

Any termination entitlements payable to the Group's executives would be considered in light of the relevant circumstances and would be determined after consideration of entitlements of common law rights.

The Chief Financial Officer's employment agreement provides for payment of a minimum six months' salary should there be a change in ownership or control that results in his position being terminated.

| | Contract term | | | |
|---|---|---|---|---|
| **Key management personnel** | **Fixed** | **Rolling** | **Notice period** | **Company notice period and any contractual termination payments** |
| Mr R. Uechtritz[i] | n/a | n/a | n/a | n/a |
| Mr T. Smart | – | ✓ | 4 weeks | No specific reference in employment letter |
| Mr R. Murray | – | ✓ | 4 weeks | Minimum 6 months current salary |
| Mr S. Browning | – | ✓ | 4 weeks | No specific reference in employment letter |
| Mr C. Trainor | – | ✓ | 4 weeks | No specific reference in employment letter |
| Mr P. Green | – | ✓ | 4 weeks | No specific reference in employment letter |

(i) Mr Uechtritz resigned from his position as CEO and Executive Director on 28 May 2010 and now acts as a consultant to the Group.

**Relationship between financial performance and variable remuneration**

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

The effectiveness of these measures in driving financial performance is highlighted in the following table.

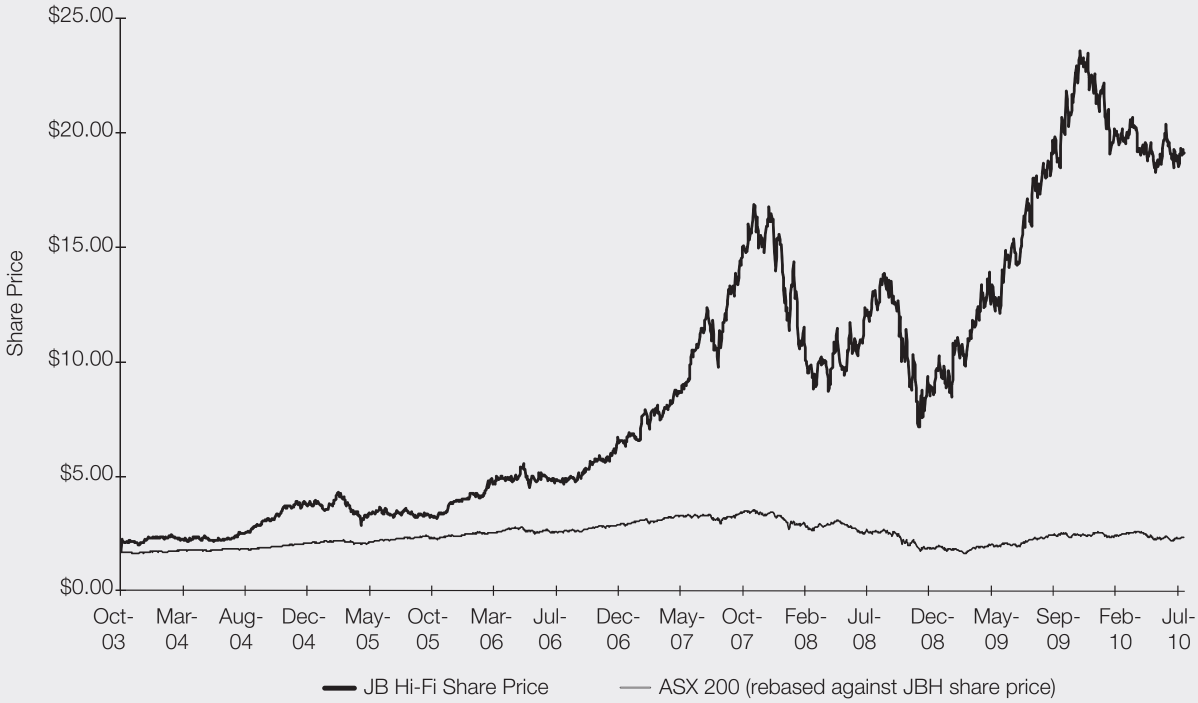
| | | | | | | | *Movement* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *FY06* | *FY07* | *FY08* | *FY09* | *FY10* | *FY06* | *FY07* | *FY08* | *FY09* | *FY10* |
| 1. | Consolidated sales ($m) | 945.8 | 1,281.8 | 1,828.6 | 2,327.3 | 2,731.3 | 36% | 36% | 43% | 27% | 17% |
| 2. | Consolidated profit attributable to members of the parent entity ($m) | 25.8 | 40.4 | 65.1 | 94.4 | 118.7 | 32% | 57% | 61% | 45% | 26% |
| 3. | Basic earnings per share (cents) | 25.0 | 38.8 | 61.8 | 88.3 | 109.7 | 32% | 55% | 59% | 43% | 24% |
| 4. | Shareholder value created: | | | | | | | | | | |
| | Company share price at the end of the reporting period ($) | 5.08 | 10.82 | 10.46 | 15.40 | 19.07 | 43% | 113% | (3%) | 47% | 24% |
| | Market capitalisation ($m) | 525.6 | 1,132.1 | 1,107.6 | 1,651.6 | 2,066.1 | 44% | 115% | (2%) | 49% | 25% |
| | Enterprise value(i) ($m) | 621.7 | 1,226.8 | 1,232.1 | 1,705.2 | 2,084.0 | 41% | 97% | 0.4% | 38% | 22% |
| | Movement in enterprise value during the financial year ($m) | 179.7 | 605.1 | 5.3 | 473.1 | 378.8 | | | | | |
| | Dividends paid to shareholders during the financial year ($m) | 7.4 | 9.4 | 16.9 | 33.2 | 67.1 | | | | | |
| | **Shareholder value created(ii)** | | | | | | | | | | |
| | - per annum ($m) | 187.1 | 614.5 | 22.2 | 506.3 | 445.9 | | | | | |
| | **- cumulative ($m)** | **438.5** | **1,053.0** | **1,075.2** | **1,581.5** | **2,027.4** | | | | | |

(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 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.

The Company has not returned any capital to shareholders since its listing in October 2003.

The following graph plots the JB Hi-Fi closing share price and the ASX 200 on a daily basis since listing on the ASX.



### Key management personnel compensation

Key management personnel include the directors and the six identified Group personnel. The aggregate compensation of the key management personnel of the Group is set out below:

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| Short-term employee benefits | 7,151,111 | 5,514,411 |
| Post-employment benefits | 286,819 | 295,256 |
| Share-based payments | 2,002,381 | 1,485,848 |
| | **9,440,311** | **7,295,515** |

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

| | Short-term employee benefits | | | Post-employment benefits | | Share based payments | | Performance based | |
|---|---|---|---|---|---|---|---|---|---|
| **2010** | *Salary & fees* $ | *Bonus*[viii] $ | *Other* $ | *Super-annuation* $ | *Other* $ | *Options*[viii] $ | *Total* $ | *Yes* % | *No* % |
| **Non-executive directors** | | | | | | | | | |
| Mr P. Elliott | 203,750 | – | – | 25,000 | – | – | 228,750 | – | 100% |
| Mr J. King | 102,064 | – | – | 9,186 | – | – | 111,250 | – | 100% |
| Mr G. Levin | 60,000 | – | – | 50,000 | – | – | 110,000 | – | 100% |
| Mr W. Fraser | 110,000 | – | – | – | – | – | 110,000 | – | 100% |
| Mr G. Richards | 82,250 | – | – | 44,000 | – | – | 126,250 | – | 100% |
| | **558,064** | **–** | **–** | **128,186** | **–** | **–** | **686,250** | | |
| **Group executives** | | | | | | | | | |
| Mr R. Uechtritz[v] | 1,297,608 | 1,222,552 | 318,874 | 50,000 | – | 803,257[i] | 3,692,291 | 55% | 45% |
| Mr T. Smart | 781,932 | 507,546 | 33,711 | 25,000 | – | 495,316[i] | 1,843,505 | 54% | 46% |
| Mr R. Murray | 501,199 | 313,796 | 28,187 | 25,000 | – | 258,093[ii] | 1,126,275 | 51% | 49% |
| Mr S. Browning | 363,054 | 277,083 | 28,187 | 25,000 | – | 256,943[ii] | 950,267 | 56% | 44% |
| Mr C. Trainor[vi] | 308,212 | 288,012 | 19,673 | 14,904 | – | 112,143[iii] | 742,944 | 54% | 46% |
| Mr P. Green[vii] | 208,421 | 75,000 | 20,000 | 18,729 | – | 76,629[iv] | 398,779 | 38% | 62% |
| | **3,460,426** | **2,683,989** | **448,632** | **158,633** | **–** | **2,002,381** | **8,754,061** | | |
| | **4,018,490** | **2,683,989** | **448,632** | **286,819** | **–** | **2,002,381** | **9,440,311** | | |

(i) Series #17, 24, 25, 35, 36, 44, 45, 52, 53.
(ii) Series #14, 21, 22, 33, 34, 42, 43, 48, 49.
(iii) Series #55, 56.
(iv) Series #14, 20, 32, 41, 47.
(v) Mr Uechtritz resigned from his position as CEO and Executive Director on 28 May 2010 and now acts as a consultant to the Group.
(vi) Mr Trainor joined the Company in November 2009.
(vii) Mr Green was promoted to the Executive team effective 31 May 2010.
(viii) Performance based.

| 2010 | Performance based: Short-term employee benefits: Bonus $ | Performance based: Short-term employee benefits: Bonus % of total remuneration | Performance based: Share based payments: Options $ | Performance based: Share based payments: Options % of total remuneration |
|---|---|---|---|---|
| **Group Executives** | | | | |
| Mr R. Uechtritz | 1,222,552 | 33% | 803,257 | 22% |
| Mr T. Smart | 507,546 | 28% | 495,316 | 27% |
| Mr R. Murray | 313,796 | 28% | 258,093 | 23% |
| Mr S. Browning | 277,083 | 29% | 256,943 | 27% |
| Mr C. Trainor | 288,012 | 39% | 112,143 | 15% |
| Mr P. Green | 75,000 | 19% | 76,629 | 19% |
| | **2,683,989** | **31%** | **2,002,381** | **23%** |

Bonuses are paid in the year following the year that they relate to.

| 2009 | Short-term employee benefits: Salary & fees $ | Short-term employee benefits: Bonus[iv] $ | Short-term employee benefits: Other $ | Post-employment benefits: Super-annuation $ | Post-employment benefits: Other $ | Share based payments: Options[iv] $ | Total $ | Performance based: Yes % | Performance based: No % |
|---|---|---|---|---|---|---|---|---|---|
| **Non-executive directors** | | | | | | | | | |
| Mr P. Elliott | 178,899 | – | – | 16,101 | – | – | 195,000 | – | 100% |
| Mr J. King | 91,743 | – | – | 8,257 | – | – | 100,000 | – | 100% |
| Mr G. Levin | 87,156 | – | – | 7,844 | – | – | 95,000 | – | 100% |
| Mr W. Fraser | 87,156 | – | – | 7,844 | – | – | 95,000 | – | 100% |
| Mr G. Richards | 87,156 | – | – | 7,844 | – | – | 95,000 | – | 100% |
| | **532,110** | **–** | **–** | **47,890** | **–** | **–** | **580,000** | | |
| **Group executives and management** | | | | | | | | | |
| Mr R. Uechtritz | 1,038,264 | 1,164,807 | 39,462 | 114,209 | – | 594,067[i] | 2,950,809 | 60% | 40% |
| Mr T. Smart | 517,028 | 553,430 | 29,314 | 56,873 | – | 402,946[i] | 1,559,591 | 61% | 39% |
| Mr R. Murray | 321,297 | 292,014 | 28,187 | 28,917 | – | 216,857[ii] | 887,272 | 57% | 43% |
| Mr S. Browning | 321,297 | 267,014 | 28,187 | 28,917 | – | 216,854[ii] | 862,269 | 56% | 44% |
| Mr S. Duff[v] | 205,000 | 152,000 | 25,000 | 18,450 | – | 55,124[iii] | 455,574 | 46% | 55% |
| | **2,402,886** | **2,429,265** | **150,150** | **247,366** | – | **1,485,848** | **6,715,515** | | |
| | **2,934,996** | **2,429,265** | **150,150** | **295,256** | – | **1,485,848** | **7,295,515** | | |

(i) Series #10, 17, 24, 25, 35, 36, 44 and 45.
(ii) Series #10, 14, 21, 22, 33, 34, 42, 43, 48 and 49.
(iii) Series #39, 41 and 47.
(iv) Performance based.
(v) Group management.

| 2009 | Performance based: Short-term employee benefits – Bonus $ | Bonus % of total remuneration | Share based payments – Options $ | Options % of total remuneration |
|---|---|---|---|---|
| **Group Executives** | | | | |
| Mr R. Uechtritz | 1,164,807 | 40% | 594,067 | 20% |
| Mr T. Smart | 553,430 | 35% | 402,946 | 26% |
| Mr R. Murray | 292,014 | 33% | 216,857 | 24% |
| Mr S. Browning | 267,014 | 31% | 216,854 | 25% |
| Mr S. Duff | 152,000 | 33% | 55,124 | 12% |
| | **2,429,265** | **36%** | **1,485,848** | **22%** |

Bonuses are paid in the year following the year that they relate to.

### Share options

### Executive and employee share option plan

The Group has an ownership-based remuneration scheme for employees and executives (excluding non-executive directors). In accordance with the provisions of the scheme, employees and executives within the Group are granted options to purchase parcels of ordinary shares at various issue prices. The options vest a third each, on the second, third and fourth anniversary of issue providing that performance conditions, where they exist, are met. The options expire within five years of their issue, or one month after the executive's resignation, whichever is earlier.

### Shares under option

Details of interests under option at the date of this report are:

| Option series | Number of shares under option | Class of share | Grant date (GD) | Share Price at GD | Expiry date | Exercise price $ | Expected volatility | Dividend yield at GD | Risk-free interest rate at GD | Fair value at GD $ |
|---|---|---|---|---|---|---|---|---|---|---|
| 18 | 16,667 | Ordinary | 03/04/06 | 4.94 | 03/04/11 | 4.89 | 28.3% | 1.5% | 5.4% | 1.25 |
| 19 | 16,667 | Ordinary | 26/06/06 | 4.85 | 26/06/11 | 4.98 | 29.4% | 1.5% | 5.9% | 1.21 |
| 20 | 125,012 | Ordinary | 15/08/06 | 4.79 | 15/08/11 | 4.81 | 29.5% | 1.6% | 6.0% | 1.24 |
| 21 | 56,000 | Ordinary | 15/08/06 | 4.79 | 15/08/11 | 4.81 | 29.5% | 1.6% | 6.0% | 1.24 |
| 22 | 24,000 | Ordinary | 15/08/06 | 4.79 | 15/08/11 | 4.81 | 29.5% | 1.6% | 6.0% | 1.24 |
| 23 | 20,000 | Ordinary | 13/09/06 | 4.81 | 13/09/11 | 4.81 | 29.4% | 1.6% | 5.7% | 1.24 |
| 24 | 81,666 | Ordinary | 15/08/06 | 4.79 | 15/08/11 | 4.81 | 29.5% | 1.6% | 6.0% | 1.24 |
| 25 | 35,000 | Ordinary | 15/08/06 | 4.79 | 15/08/11 | 4.81 | 29.5% | 1.6% | 6.0% | 1.24 |
| 26 | 10,000 | Ordinary | 29/11/06 | 5.82 | 29/11/11 | 5.73 | 29.2% | 1.4% | 5.8% | 1.56 |
| 27 | 16,666 | Ordinary | 28/12/06 | 6.55 | 28/12/11 | 6.48 | 29.3% | 1.2% | 6.0% | 1.79 |
| 28 | 33,333 | Ordinary | 19/04/07 | 8.05 | 19/04/12 | 8.01 | 29.4% | 1.1% | 6.1% | 2.21 |
| 29 | 20,000 | Ordinary | 07/05/07 | 8.75 | 07/05/12 | 8.47 | 29.4% | 1.0% | 6.0% | 2.51 |
| 30 | 40,000 | Ordinary | 04/07/07 | 11.36 | 04/07/12 | 10.90 | 29.8% | 1.1% | 6.3% | 3.37 |
| 31 | 20,000 | Ordinary | 01/08/07 | 11.20 | 01/08/12 | 11.25 | 30.0% | 1.1% | 6.2% | 3.10 |
| 32 | 279,988 | Ordinary | 20/08/07 | 11.02 | 20/08/12 | 11.00 | 31.2% | 1.1% | 6.1% | 3.15 |
| 33 | 79,168 | Ordinary | 20/08/07 | 11.02 | 20/08/12 | 11.00 | 31.2% | 1.1% | 6.1% | 3.15 |
| 34 | 33,930 | Ordinary | 20/08/07 | 11.02 | 20/08/12 | 11.00 | 31.2% | 1.1% | 6.1% | 3.15 |
| 35 | 185,554 | Ordinary | 20/08/07 | 11.02 | 20/08/12 | 11.00 | 31.2% | 1.1% | 6.1% | 3.15 |
| 36 | 79,523 | Ordinary | 20/08/07 | 11.02 | 20/08/12 | 11.00 | 31.2% | 1.1% | 6.1% | 3.15 |
| 37 | 20,000 | Ordinary | 19/02/08 | 10.64 | 19/02/13 | 10.90 | 34.8% | 2.2% | 6.7% | 2.98 |

**Shares under option (cont.)**

| Option series | Number of shares under option | Class of share | Grant date (GD) | Share Price at GD | Expiry date | Exercise price $ | Expected volatility | Dividend yield at GD | Risk-free interest rate at GD | Fair value at GD $ |
|---|---|---|---|---|---|---|---|---|---|---|
| 38 | 50,000 | Ordinary | 07/04/08 | 10.01 | 07/04/13 | 9.54 | 35.9% | 2.3% | 6.2% | 3.05 |
| 39 | 30,000 | Ordinary | 05/06/08 | 9.75 | 05/06/13 | 9.66 | 36.8% | 2.4% | 6.6% | 2.91 |
| 40 | 80,000 | Ordinary | 23/07/08 | 12.16 | 23/07/13 | 11.76 | 37.6% | 1.9% | 6.5% | 3.90 |
| 41 | 500,000 | Ordinary | 26/08/08 | 13.52 | 26/08/13 | 12.98 | 37.6% | 2.0% | 5.7% | 3.86 |
| 42 | 110,286 | Ordinary | 26/08/08 | 13.52 | 26/08/13 | 12.98 | 37.6% | 2.0% | 5.7% | 3.86 |
| 43 | 47,264 | Ordinary | 26/08/08 | 13.52 | 26/08/13 | 12.98 | 37.6% | 2.0% | 5.7% | 3.86 |
| 44 | 258,480 | Ordinary | 26/08/08 | 13.52 | 26/08/13 | 12.98 | 37.6% | 2.0% | 5.7% | 3.86 |
| 45 | 110,778 | Ordinary | 26/08/08 | 13.52 | 26/08/13 | 12.98 | 37.6% | 2.0% | 5.7% | 3.86 |
| 46 | 120,000 | Ordinary | 02/04/09 | 12.29 | 02/04/14 | 11.62 | 44.9% | 2.7% | 3.9% | 3.57 |
| 47 | 443,000 | Ordinary | 29/06/09 | 15.06 | 29/06/14 | 14.92 | 46.5% | 2.9% | 5.2% | 4.86 |
| 48 | 63,459 | Ordinary | 29/06/09 | 15.06 | 29/06/14 | 14.92 | 46.5% | 2.9% | 5.2% | 4.86 |
| 49 | 27,196 | Ordinary | 29/06/09 | 15.06 | 29/06/14 | 14.92 | 46.5% | 2.9% | 5.2% | 4.86 |
| 50 | 6,500 | Ordinary | 11/09/09 | 18.10 | 11/09/14 | 18.25 | 46.4% | 2.4% | 5.1% | 6.10 |
| 51 | 25,000 | Ordinary | 29/09/09 | 19.58 | 29/09/14 | 19.27 | 46.4% | 2.3% | 5.1% | 6.49 |
| 52 | 186,877 | Ordinary | 29/06/09 | 15.06 | 29/06/14 | 14.92 | 46.5% | 2.9% | 5.2% | 4.86 |
| 53 | 80,090 | Ordinary | 29/06/09 | 15.06 | 29/06/14 | 14.92 | 46.5% | 2.9% | 5.2% | 4.86 |
| 54 | 15,000 | Ordinary | 12/10/09 | 18.53 | 12/10/14 | 18.86 | 46.3% | 2.3% | 5.3% | 6.37 |
| 55 | 55,191 | Ordinary | 23/12/09 | 22.35 | 23/12/14 | 22.26 | 45.8% | 2.0% | 5.2% | 7.61 |
| 56 | 23,653 | Ordinary | 23/12/09 | 22.35 | 23/12/14 | 22.26 | 45.8% | 2.0% | 5.2% | 7.61 |
| 57 | 20,761 | Ordinary | 03/06/10 | 18.80 | 03/06/15 | 18.80 | 45.8% | 3.5% | 5.1% | 5.78 |
| 58 | 28,000 | Ordinary | 01/07/10 | 19.10 | 01/07/15 | 19.28 | 45.7% | 3.4% | 4.7% | 5.88 |
| 59 | 12,000 | Ordinary | 01/07/10 | 19.10 | 01/07/15 | 19.28 | 45.7% | 3.4% | 4.7% | 5.88 |
| | 3,486,709 | | | | | | | | | |

The holders of these options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme. The weighted average fair value of the share options granted during the financial year is $6.88 (2009: $4.24). Options were valued using the Black-Scholes model.

Volatility is based on:

- series 18 to 29, expected volatility is based on the daily closing share price since listing.
- series 30 and onwards, expected volatility is based on the daily closing share price for the 3.44 years preceding the issues of the series.

All option series have an expiry of five years from grant date. However, from series 14, expected life was reduced to 3.44 years to allow for the effects of early exercise based on prior years' experience.

The following share options granted under the employee and executive share option plan were exercised during the financial year. All shares were issued by JB Hi-Fi Limited.

**2010**

| Option Series | Grant date | Exercise date | Number exercised | Number of shares issued | Class of shares | Amount paid per share $ | Amount unpaid per share $ | Share price at exercise date $ |
|---|---|---|---|---|---|---|---|---|
| 13 | 12-Apr-05 | 20-Aug-09 | 16,667 | 16,667 | Ordinary | 3.61 | – | 17.75 |
| 14 | 22-Jul-05 | 20-Aug-09 | 132,843 | 132,843 | Ordinary | 3.33 | – | 17.75 |
| 14 | 22-Jul-05 | 01-Sep-09 | 18,332 | 18,332 | Ordinary | 3.33 | – | 18.18 |
| 14 | 22-Jul-05 | 14-Oct-09 | 3,333 | 3,333 | Ordinary | 3.33 | – | 19.42 |
| 14 | 22-Jul-05 | 06-Nov-09 | 6,667 | 6,667 | Ordinary | 3.33 | – | 21.00 |
| 14 | 22-Jul-05 | 08-Feb-10 | 50,000 | 50,000 | Ordinary | 3.33 | – | 19.07 |
| 15 | 08-Aug-05 | 20-Aug-09 | 30,863 | 30,863 | Ordinary | 3.37 | – | 17.75 |
| 15 | 08-Aug-05 | 14-Oct-09 | 3,900 | 3,900 | Ordinary | 3.37 | – | 19.42 |
| 15 | 08-Aug-05 | 06-Nov-09 | 1,050 | 1,050 | Ordinary | 3.37 | – | 21.00 |
| 15 | 08-Aug-05 | 08-Feb-10 | 6,187 | 6,187 | Ordinary | 3.37 | – | 19.07 |
| 16 | 26-Sep-05 | 14-Oct-09 | 16,667 | 16,667 | Ordinary | 3.29 | – | 19.42 |
| 17 | 22-Jul-05 | 20-Aug-09 | 67,712 | 67,712 | Ordinary | 3.33 | – | 17.75 |
| 18 | 03-Apr-06 | 01-Sep-09 | 33,333 | 33,333 | Ordinary | 4.89 | – | 18.18 |
| 19 | 26-Jun-06 | 20-Aug-09 | 16,667 | 16,667 | Ordinary | 4.98 | – | 17.75 |
| 20 | 15-Aug-06 | 20-Aug-09 | 43,330 | 43,330 | Ordinary | 4.81 | – | 17.75 |
| 20 | 15-Aug-06 | 01-Sep-09 | 19,998 | 19,998 | Ordinary | 4.81 | – | 18.18 |
| 20 | 15-Aug-06 | 14-Oct-09 | 5,000 | 5,000 | Ordinary | 4.81 | – | 19.42 |
| 20 | 15-Aug-06 | 06-Nov-09 | 6,666 | 6,666 | Ordinary | 4.81 | – | 21.00 |
| 20 | 15-Aug-06 | 08-Feb-10 | 13,332 | 13,332 | Ordinary | 4.81 | – | 19.07 |
| 21 | 15-Aug-06 | 20-Aug-09 | 56,001 | 56,001 | Ordinary | 4.81 | – | 17.75 |
| 22 | 15-Aug-06 | 20-Aug-09 | 24,000 | 24,000 | Ordinary | 4.81 | – | 17.75 |
| 23 | 13-Sep-06 | 20-Aug-09 | 10,000 | 10,000 | Ordinary | 4.81 | – | 17.75 |
| 23 | 13-Sep-06 | 14-Oct-09 | 10,000 | 10,000 | Ordinary | 4.81 | – | 19.42 |
| 23 | 13-Sep-06 | 06-Nov-09 | 10,000 | 10,000 | Ordinary | 4.81 | – | 21.00 |
| 24 | 15-Aug-06 | 20-Aug-09 | 81,667 | 81,667 | Ordinary | 4.81 | – | 17.75 |
| 25 | 15-Aug-06 | 20-Aug-09 | 35,000 | 35,000 | Ordinary | 4.81 | – | 17.75 |
| 26 | 29-Nov-06 | 08-Feb-10 | 10,000 | 10,000 | Ordinary | 5.73 | – | 19.07 |
| 27 | 28-Dec-06 | 20-Aug-09 | 16,667 | 16,667 | Ordinary | 6.48 | – | 17.75 |
| 27 | 28-Dec-06 | 08-Feb-10 | 16,667 | 16,667 | Ordinary | 6.48 | – | 19.07 |
| 28 | 19-Apr-07 | 20-Aug-09 | 16,667 | 16,667 | Ordinary | 8.01 | – | 17.75 |
| 29 | 07-May-07 | 20-Aug-09 | 10,000 | 10,000 | Ordinary | 8.47 | – | 17.75 |
| 30 | 04-Jul-07 | 20-Aug-09 | 20,000 | 20,000 | Ordinary | 10.90 | – | 17.75 |
| 31 | 01-Aug-07 | 20-Aug-09 | 10,000 | 10,000 | Ordinary | 11.25 | – | 17.75 |
| 32 | 20-Aug-07 | 20-Aug-09 | 46,672 | 46,672 | Ordinary | 11.00 | – | 17.75 |
| 32 | 20-Aug-07 | 01-Sep-09 | 10,002 | 10,002 | Ordinary | 11.00 | – | 18.18 |
| 32 | 20-Aug-07 | 14-Oct-09 | 10,002 | 10,002 | Ordinary | 11.00 | – | 19.42 |
| 32 | 20-Aug-07 | 06-Nov-09 | 10,002 | 10,002 | Ordinary | 11.00 | – | 21.00 |
| 32 | 20-Aug-07 | 08-Feb-10 | 3,334 | 3,334 | Ordinary | 11.00 | – | 19.07 |
| 33 | 20-Aug-07 | 20-Aug-09 | 19,793 | 19,793 | Ordinary | 11.00 | – | 17.75 |
| 33 | 20-Aug-07 | 14-Oct-09 | 19,793 | 19,793 | Ordinary | 11.00 | – | 19.42 |
| 34 | 20-Aug-07 | 20-Aug-09 | 8,483 | 8,483 | Ordinary | 11.00 | – | 17.75 |
| 34 | 20-Aug-07 | 14-Oct-09 | 8,483 | 8,483 | Ordinary | 11.00 | – | 19.42 |
| 35 | 20-Aug-07 | 20-Aug-09 | 92,778 | 92,778 | Ordinary | 11.00 | – | 17.75 |
| 36 | 20-Aug-07 | 20-Aug-09 | 39,763 | 39,763 | Ordinary | 11.00 | – | 17.75 |
| 37 | 19-Feb-08 | 26-Feb-10 | 10,000 | 10,000 | Ordinary | 10.90 | – | 19.48 |
| | | | 1,098,321 | 1,098,321 | | | | |

**2009**

| Option Series | Grant date | Exercise date | Number exercised | Number of shares issued | Class of shares | Amount paid per share $ | Amount unpaid per share $ | Share price at exercise date $ |
|---|---|---|---|---|---|---|---|---|
| 5 | 18/09/03 | 19/08/08 | 10,666 | 10,666 | Ordinary | 1.25 | – | 12.59 |
| 7 | 29/01/04 | 19/08/08 | 8,606 | 8,606 | Ordinary | 2.32 | – | 12.59 |
| 8 | 23/03/04 | 19/08/08 | 50,000 | 50,000 | Ordinary | 2.23 | – | 12.59 |
| 9 | 28/04/04 | 19/08/08 | 60,333 | 60,333 | Ordinary | 2.25 | – | 12.59 |
| 9 | 28/04/04 | 10/02/09 | 13,334 | 13,334 | Ordinary | 2.25 | – | 10.80 |
| 10 | 23/07/04 | 19/08/08 | 474,791 | 474,791 | Ordinary | 2.29 | – | 12.59 |
| 10 | 23/07/04 | 22/08/08 | 114,345 | 114,345 | Ordinary | 2.29 | – | 13.30 |
| 10 | 23/07/04 | 12/09/08 | 7,333 | 7,333 | Ordinary | 2.29 | – | 13.57 |
| 10 | 23/07/04 | 10/02/09 | 33,335 | 33,335 | Ordinary | 2.29 | – | 10.80 |
| 11 | 27/10/04 | 28/10/08 | 16,667 | 16,667 | Ordinary | 2.29 | – | 9.20 |
| 12 | 28/01/05 | 05/03/09 | 16,667 | 16,667 | Ordinary | 3.68 | – | 10.33 |
| 13 | 12/04/05 | 19/08/08 | 16,667 | 16,667 | Ordinary | 3.61 | – | 12.59 |
| 14 | 22/07/05 | 19/08/08 | 139,510 | 139,510 | Ordinary | 3.33 | – | 12.59 |
| 14 | 22/07/05 | 12/09/08 | 5,000 | 5,000 | Ordinary | 3.33 | – | 13.57 |
| 14 | 22/07/05 | 10/02/09 | 3,334 | 3,334 | Ordinary | 3.33 | – | 10.80 |
| 15 | 08/08/05 | 05/03/09 | 8,000 | 8,000 | Ordinary | 3.37 | – | 10.33 |
| 16 | 26/09/05 | 14/10/08 | 16,667 | 16,667 | Ordinary | 3.29 | – | 11.00 |
| 17 | 22/07/05 | 19/08/08 | 33,856 | 33,856 | Ordinary | 3.33 | – | 12.59 |
| 17 | 22/07/05 | 22/08/08 | 33,856 | 33,856 | Ordinary | 3.33 | – | 13.30 |
| 19 | 26/06/06 | 19/08/08 | 16,666 | 16,666 | Ordinary | 4.98 | – | 12.59 |
| 20 | 15/08/06 | 19/08/08 | 44,997 | 44,997 | Ordinary | 4.81 | – | 12.59 |
| 20 | 15/08/06 | 12/09/08 | 6,666 | 6,666 | Ordinary | 4.81 | – | 13.57 |
| 20 | 15/08/06 | 14/10/08 | 6,666 | 6,666 | Ordinary | 4.81 | – | 11.00 |
| 20 | 15/08/06 | 10/02/09 | 3,333 | 3,333 | Ordinary | 4.81 | – | 10.80 |
| 20 | 15/08/06 | 05/03/09 | 3,333 | 3,333 | Ordinary | 4.81 | – | 10.33 |
| 21 | 15/08/06 | 19/08/08 | 55,999 | 55,999 | Ordinary | 4.81 | – | 12.59 |
| 22 | 15/08/06 | 19/08/08 | 24,000 | 24,000 | Ordinary | 4.81 | – | 12.59 |
| 23 | 13/09/06 | 12/09/08 | 10,000 | 10,000 | Ordinary | 4.81 | – | 13.57 |
| 24 | 15/08/06 | 19/08/08 | 46,667 | 46,667 | Ordinary | 4.81 | – | 12.59 |
| 24 | 15/08/06 | 22/08/08 | 35,000 | 35,000 | Ordinary | 4.81 | – | 13.30 |
| 25 | 15/08/06 | 19/08/08 | 20,000 | 20,000 | Ordinary | 4.81 | – | 12.59 |
| 25 | 15/08/06 | 22/08/08 | 15,000 | 15,000 | Ordinary | 4.81 | – | 13.30 |
| 26 | 29/11/06 | 10/02/09 | 10,000 | 10,000 | Ordinary | 5.73 | – | 10.80 |
| | | | 1,361,294 | 1,361,294 | | | | |

### Long-term incentive

Since July 2004, certain Group directors and executives have been issued with options under the ESOP as part of the Company's long-term incentive program. Vesting of the options issued is subject to a performance hurdle which requires compound annual earnings per share growth of between 10% and 20% per annum. If the performance hurdle is achieved, a third of the options will vest on each of the second, third and fourth anniversary of issue. The following table details the current options outstanding which feature performance hurdles:

| Option Series | Grant date | Performance condition – cumulative EPS growth per annum | Date for testing performance condition | Relevant financial year | Vested subject to performance condition | 100% vested due to achievement of performance condition |
|---|---|---|---|---|---|---|
| 21 | 15/08/06 | 10.0% | 15/08/10 | 2010 | n/a | n/a |
| 22 | 15/08/06 | 15.0% | 15/08/10 | 2010 | n/a | n/a |
| 24 | 15/08/06 | 10.0% | 15/08/10 | 2010 | n/a | n/a |
| 25 | 15/08/06 | 15.0% | 15/08/10 | 2010 | n/a | n/a |
| 33 | 20/08/07 | 15.0% | 20/08/10 | 2010 | n/a | n/a |
| 33 | 20/08/07 | 15.0% | 20/08/11 | 2011 | n/a | n/a |
| 34 | 20/08/07 | 20.0% | 20/08/10 | 2010 | n/a | n/a |
| 34 | 20/08/07 | 20.0% | 20/08/11 | 2011 | n/a | n/a |
| 35 | 20/08/07 | 15.0% | 20/08/10 | 2010 | n/a | n/a |
| 35 | 20/08/07 | 15.0% | 20/08/11 | 2011 | n/a | n/a |
| 36 | 20/08/07 | 20.0% | 20/08/10 | 2010 | n/a | n/a |
| 36 | 20/08/07 | 20.0% | 20/08/11 | 2011 | n/a | n/a |
| 42 | 26/08/08 | 15.0% | 26/08/10 | 2010 | n/a | n/a |
| 42 | 26/08/08 | 15.0% | 26/08/11 | 2011 | n/a | n/a |
| 42 | 26/08/08 | 15.0% | 26/08/12 | 2012 | n/a | n/a |
| 43 | 26/08/08 | 20.0% | 26/08/10 | 2010 | n/a | n/a |
| 43 | 26/08/08 | 20.0% | 26/08/11 | 2011 | n/a | n/a |
| 43 | 26/08/08 | 20.0% | 26/08/12 | 2012 | n/a | n/a |
| 44 | 26/08/08 | 15.0% | 26/08/10 | 2010 | n/a | n/a |
| 44 | 26/08/08 | 15.0% | 26/08/11 | 2011 | n/a | n/a |
| 44 | 26/08/08 | 15.0% | 26/08/12 | 2012 | n/a | n/a |
| 45 | 26/08/08 | 20.0% | 26/08/10 | 2010 | n/a | n/a |
| 45 | 26/08/08 | 20.0% | 26/08/11 | 2011 | n/a | n/a |
| 45 | 26/08/08 | 20.0% | 26/08/12 | 2012 | n/a | n/a |
| 48 | 29/06/09 | 10.0% | 29/06/11 | 2011 | n/a | n/a |
| 48 | 29/06/09 | 10.0% | 29/06/12 | 2012 | n/a | n/a |
| 48 | 29/06/09 | 10.0% | 29/06/13 | 2013 | n/a | n/a |
| 49 | 29/06/09 | 15.0% | 29/06/11 | 2011 | n/a | n/a |
| 49 | 29/06/09 | 15.0% | 29/06/12 | 2012 | n/a | n/a |
| 49 | 29/06/09 | 15.0% | 29/06/13 | 2013 | n/a | n/a |
| 52 | 29/06/09 | 10.0% | 29/06/11 | 2011 | n/a | n/a |
| 52 | 29/06/09 | 10.0% | 29/06/12 | 2012 | n/a | n/a |
| 52 | 29/06/09 | 10.0% | 29/06/13 | 2013 | n/a | n/a |
| 53 | 29/06/09 | 15.0% | 29/06/11 | 2011 | n/a | n/a |
| 53 | 29/06/09 | 15.0% | 29/06/12 | 2012 | n/a | n/a |
| 53 | 29/06/09 | 15.0% | 29/06/13 | 2013 | n/a | n/a |
| 55 | 23/12/09 | 10.0% | 23/12/11 | 2011 | n/a | n/a |
| 55 | 23/12/09 | 10.0% | 23/12/12 | 2012 | n/a | n/a |

| Option Series | Grant date | Performance condition – cumulative EPS growth per annum | Date for testing performance condition | Relevant financial year | Vested subject to performance condition | 100% vested due to achievement of performance condition |
|---|---|---|---|---|---|---|
| 55 | 23/12/09 | 10.0% | 23/12/13 | 2013 | n/a | n/a |
| 56 | 23/12/09 | 15.0% | 23/12/11 | 2011 | n/a | n/a |
| 56 | 23/12/09 | 15.0% | 23/12/12 | 2012 | n/a | n/a |
| 56 | 23/12/09 | 15.0% | 23/12/13 | 2013 | n/a | n/a |
| 58 | 01/07/10 | 10.0% | 01/07/12 | 2012 | n/a | n/a |
| 58 | 01/07/10 | 10.0% | 01/07/13 | 2013 | n/a | n/a |
| 58 | 01/07/10 | 10.0% | 01/07/14 | 2014 | n/a | n/a |
| 59 | 01/07/10 | 15.0% | 01/07/12 | 2012 | n/a | n/a |
| 59 | 01/07/10 | 15.0% | 01/07/13 | 2013 | n/a | n/a |
| 59 | 01/07/10 | 15.0% | 01/07/14 | 2014 | n/a | n/a |

**Key management personnel equity holdings**

**Fully paid ordinary shares of JB Hi-Fi Limited**

| 2010[(i)] | Balance at 1 July 2009 No. | Granted as compensation No. | Received on exercise of options No. | Net other change No. | Balance at 30 June 2010 No. | Balance held nominally No. |
|---|---|---|---|---|---|---|
| Mr P. Elliott | 249,732 | – | – | (40,000) | 209,732 | 10,000 |
| Mr J. King | 32,258 | – | – | – | 32,258 | 32,258 |
| Mr G. Levin | 30,000 | – | – | – | 30,000 | – |
| Mr W. Fraser | 6,451 | – | – | – | 6,451 | 6,451 |
| Mr G. Richards | 23,000 | – | – | – | 23,000 | 23,000 |
| Mr T. Smart | 1,531,157 | – | 136,872 | (168,029) | 1,500,000 | – |
| Mr R. Murray | 151,433 | – | 80,335 | (107,545) | 124,223 | 750 |
| Mr S. Browning | 188,683 | – | 80,335 | (188,683) | 80,335 | – |
| Mr C. Trainor | – | – | – | – | – | – |
| Mr P. Green | 2,234 | – | 18,333 | (20,533) | 34 | – |
| | 2,214,948 | – | 315,875 | (524,790) | 2,006,033 | 72,459 |

(i) Mr Uechtritz resigned from his position as CEO and Executive Director on 28 May 2010. During the period to 28 May 2010, Mr Uechtritz received 180,048 ordinary shares on exercise of options and disposed 1,180,048 ordinary shares. At the date of his resignation, Mr Uechtritz held 1,000,000 ordinary shares.

| 2009 | Balance at 1 July 2008 No. | Granted as compensation No. | Received on exercise of options No. | Net other change No. | Balance at 30 June 2009 No. | Balance held nominally No. |
|---|---|---|---|---|---|---|
| Mr P. Elliott | 250,000 | – | – | (268) | 249,732 | 11,400 |
| Mr J. King | 32,258 | – | – | – | 32,258 | 32,258 |
| Mr G. Levin | 50,000 | – | – | (20,000) | 30,000 | – |
| Mr W. Fraser | 6,451 | – | – | – | 6,451 | 6,451 |
| Mr G. Richards | 23,000 | – | – | – | 23,000 | 23,000 |
| Mr R. Uechtritz | 3,115,000 | – | 273,773 | (1,388,773) | 2,000,000 | – |
| Mr T. Smart | 1,722,956 | – | 198,201 | (390,000) | 1,531,157 | – |
| Mr R. Murray | 162,400 | – | 150,683 | (161,650) | 151,433 | 750 |
| Mr S. Browning | 127,017 | – | 188,683 | (127,017) | 188,683 | – |
| Mr S. Duff[(i)] | – | – | – | – | – | – |
| | 5,489,082 | – | 811,340 | (2,087,708) | 4,212,714 | 73,859 |

(i) Group management.

**Share options of JB Hi-Fi Limited**

| 2010[i] | Balance at 1 July 2009 No. | Granted as compensation No. | Exercised No. | Balance at 30 June 2010 No. | Balance vested at 30 June 2010 No. | Options vested during year No. |
|---|---|---|---|---|---|---|
| Mr T. Smart[ii] | 532,917 | – | (136,872) | 396,045 | – | 136,872 |
| Mr R. Murray | 287,981 | – | (80,335) | 207,646 | – | 80,335 |
| Mr S. Browning | 287,326 | – | (80,335) | 206,991 | – | 80,335 |
| Mr C. Trainor[iii] | – | 78,844 | – | 78,844 | – | – |
| Mr P. Green[iii] | 78,333 | – | (18,333) | 60,000 | – | 18,333 |
| | 1,186,557 | 78,844 | (315,875) | 949,526 | – | 315,875 |

(i) Mr Uechtritz resigned from his position as CEO and Executive Director on 28 May 2010. During the period to 28 May 2010, Mr Uechtritz exercised 180,048 options. At the date of his resignation, Mr Uechtritz held 621,923 options.

(ii) Excludes any options that may be approved by the Board in August 2010. The issue of any options to Mr Smart, an executive director of the Company, is also subject to shareholder approval at the Company's Annual General Meeting in October 2010.

(iii) Excludes any options issued post 30 June 2010.

| 2009 | Balance at 1 July 2008 No. | Granted as compensation No. | Exercised No. | Balance at 30 June 2009 No. | Balance vested at 30 June 2009 No. | Options vested during year No. |
|---|---|---|---|---|---|---|
| R. Uechtritz[i] | 679,533 | 396,211 | (273,773) | 801,971 | – | 273,773 |
| T. Smart[i] | 491,104 | 240,014 | (198,201) | 532,917 | – | 198,201 |
| R. Murray | 314,234 | 124,430 | (150,683) | 287,981 | – | 150,683 |
| S. Browning | 352,234 | 123,775 | (188,683) | 287,326 | – | 188,683 |
| S. Duff | 30,000 | 35,000 | – | 65,000 | – | – |
| | 1,867,105 | 919,430 | (811,340) | 1,975,195 | – | 811,340 |

(i) Includes options granted by the Board on 29 June 2009 and approved by the shareholders at the Company's Annual General Meeting in October 2009.

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

During the financial year 495,523 (2009: 811,340) options were exercised by key management personnel at a weighted average exercise price of $6.93 (2009: $2.97) per ordinary shares in JB Hi-Fi Limited. No amounts remain unpaid on the options exercised during the financial year at year end.

**Value of options issued to key management personnel**

The following table summarises the value of options granted, exercised or lapsed during the annual reporting period to the identified directors and executives:

| 2010 | Value of options granted – at the grant date [i] $ | Value of options exercised – at the exercise date [ii] $ | Value of options lapsed – at the date of lapse $ |
|---|---|---|---|
| Mr R. Uechtritz[iii,iv] | 848,828 | 1,887,668 | – |
| Mr T. Smart[iii] | 448,631 | 1,493,062 | – |
| Mr R. Murray | – | 902,087 | – |
| Mr S. Browning | – | 949,308 | – |
| Mr C. Trainor | 600,000 | – | – |
| Mr P. Green | – | 180,262 | – |
| | 1,897,459 | 5,412,387 | – |

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

(ii) Only options granted in previous years were exercised during the current financial year.

(iii) Includes options granted by the Board on 29 June 2009 and approved by the shareholders at the Company's Annual General Meeting in October 2009.

(iv) Mr Uechtritz resigned from his position as CEO and Executive Director on 28 May 2010 and now acts as a consultant to the Group.

During and since the end of the financial year[i], an aggregate of 385,811 share options were granted to the identified Group key management personnel:

| | Series | Number of options granted | Grant date (GD) | Exercise price $ | Fair value per option at GD $ | Vesting date | Expiry date | Performance condition – cumulative EPS growth per annum |
|---|---|---|---|---|---|---|---|---|
| Mr R. Uechtritz[i] | 52.1 | 40,753 | 29/06/09 | 14.92 | 4.86 | 29/06/11 | 29/06/14 | 10% |
| | 52.2 | 40,753 | 29/06/09 | 14.92 | 4.86 | 29/06/12 | 29/06/14 | 10% |
| | 52.3 | 40,753 | 29/06/09 | 14.92 | 4.86 | 29/06/13 | 29/06/14 | 10% |
| | 53.1 | 17,466 | 29/06/09 | 14.92 | 4.86 | 29/06/11 | 29/06/14 | 15% |
| | 53.2 | 17,466 | 29/06/09 | 14.92 | 4.86 | 29/06/12 | 29/06/14 | 15% |
| | 53.3 | 17,465 | 29/06/09 | 14.92 | 4.86 | 29/06/13 | 29/06/14 | 15% |
| | | 174,656 | | 14.92 | 4.86 | | | |
| Mr T. Smart[i] | 52.1 | 21,540 | 29/06/09 | 14.92 | 4.86 | 29/06/11 | 29/06/14 | 10% |
| | 52.2 | 21,539 | 29/06/09 | 14.92 | 4.86 | 29/06/12 | 29/06/14 | 10% |
| | 52.3 | 21,539 | 29/06/09 | 14.92 | 4.86 | 29/06/13 | 29/06/14 | 10% |
| | 53.1 | 9,231 | 29/06/09 | 14.92 | 4.86 | 29/06/11 | 29/06/14 | 15% |
| | 53.2 | 9,231 | 29/06/09 | 14.92 | 4.86 | 29/06/12 | 29/06/14 | 15% |
| | 53.3 | 9,231 | 29/06/09 | 14.92 | 4.86 | 29/06/13 | 29/06/14 | 15% |
| | | 92,311 | | 14.92 | 4.86 | | | |
| Mr C. Trainor | 55.1 | 18,397 | 23/12/09 | 22.26 | 7.61 | 23/12/11 | 23/12/14 | 10% |
| | 55.2 | 18,397 | 23/12/09 | 22.26 | 7.61 | 23/12/12 | 23/12/14 | 10% |
| | 55.3 | 18,397 | 23/12/09 | 22.26 | 7.61 | 23/12/13 | 23/12/14 | 10% |
| | 56.1 | 7,885 | 23/12/09 | 22.26 | 7.61 | 23/12/11 | 23/12/14 | 15% |
| | 56.2 | 7,884 | 23/12/09 | 22.26 | 7.61 | 23/12/12 | 23/12/14 | 15% |
| | 56.3 | 7,884 | 23/12/09 | 22.26 | 7.61 | 23/12/13 | 23/12/14 | 15% |
| | 58.1 | 4,667 | 01/07/10 | 19.28 | 5.88 | 01/07/12 | 01/07/15 | 10% |
| | 58.2 | 4,667 | 01/07/10 | 19.28 | 5.88 | 01/07/13 | 01/07/15 | 10% |
| | 58.3 | 4,666 | 01/07/10 | 19.28 | 5.88 | 01/07/14 | 01/07/15 | 10% |
| | 59.1 | 2,000 | 01/07/10 | 19.28 | 5.88 | 01/07/12 | 01/07/15 | 15% |
| | 59.2 | 2,000 | 01/07/10 | 19.28 | 5.88 | 01/07/13 | 01/07/15 | 15% |
| | 59.3 | 2,000 | 01/07/10 | 19.28 | 5.88 | 01/07/14 | 01/07/15 | 15% |
| | | 98,844 | | 21.66 | 7.26 | | | |
| Mr P. Green | 58.1 | 4,667 | 01/07/10 | 19.28 | 5.88 | 01/7/12 | 01/7/15 | 10% |
| | 58.2 | 4,667 | 01/07/10 | 19.28 | 5.88 | 01/7/13 | 01/7/15 | 10% |
| | 58.3 | 4,666 | 01/07/10 | 19.28 | 5.88 | 01/7/14 | 01/7/15 | 10% |
| | 59.1 | 2,000 | 01/07/10 | 19.28 | 5.88 | 01/7/12 | 01/7/15 | 15% |
| | 59.2 | 2,000 | 01/07/10 | 19.28 | 5.88 | 01/7/13 | 01/7/15 | 15% |
| | 59.3 | 2,000 | 01/07/10 | 19.28 | 5.88 | 01/7/14 | 01/7/15 | 15% |
| | | 20,000 | | 19.28 | 5.88 | | | |
| | | **385,811** | | **16.87** | **5.53** | | | |

(i) Granted by the Board on 29 June 2009 and approved by the shareholders at the Company's Annual General Meeting in October 2009.

The following table details the options exercised during the annual reporting period by the identified Group 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 |
|---|---|---|---|---|---|---|---|---|
| Mr R. Uechtritz | 17.3 | 33,856 | 20/08/09 | 33,856 | 3.33 | 17.75 | 10.0% | Yes |
| | 24.2 | 46,667 | 20/08/09 | 46,667 | 4.81 | 17.75 | 10.0% | Yes |
| | 25.2 | 20,000 | 20/08/09 | 20,000 | 4.81 | 17.75 | 15.0% | Yes |
| | 35.1 | 55,667 | 20/08/09 | 55,667 | 11.00 | 17.75 | 15.0% | Yes |
| | 36.1 | 23,858 | 20/08/09 | 23,858 | 11.00 | 17.75 | 20.0% | Yes |
| | | 180,048 | | 180,048 | | | | |
| Mr T. Smart | 17.3 | 33,856 | 20/08/09 | 33,856 | 3.33 | 17.75 | 10.0% | Yes |
| | 24.2 | 35,000 | 20/08/09 | 35,000 | 4.81 | 17.75 | 10.0% | Yes |
| | 25.2 | 15,000 | 20/08/09 | 15,000 | 4.81 | 17.75 | 15.0% | Yes |
| | 35.1 | 37,111 | 20/08/09 | 37,111 | 11.00 | 17.75 | 15.0% | Yes |
| | 36.1 | 15,905 | 20/08/09 | 15,905 | 11.00 | 17.75 | 20.0% | Yes |
| | | 136,872 | | 136,872 | | | | |
| Mr R. Murray | 14.3 | 25,392 | 20/08/09 | 25,392 | 3.33 | 17.75 | 10.0% | Yes |
| | 21.2 | 18,667 | 20/08/09 | 18,667 | 4.81 | 17.75 | 10.0% | Yes |
| | 22.2 | 8,000 | 20/08/09 | 8,000 | 4.81 | 17.75 | 15.0% | Yes |
| | 33.1 | 19,793 | 20/08/09 | 19,793 | 11.00 | 17.75 | 15.0% | Yes |
| | 34.1 | 8,483 | 20/08/09 | 8,483 | 11.00 | 17.75 | 20.0% | Yes |
| | | 80,335 | | 80,335 | | | | |
| Mr S. Browning | 14.3 | 25,392 | 20/08/09 | 25,392 | 3.33 | 17.75 | 10.0% | Yes |
| | 21.2 | 18,667 | 20/08/09 | 18,667 | 4.81 | 17.75 | 10.0% | Yes |
| | 22.2 | 8,000 | 20/08/09 | 8,000 | 4.81 | 17.75 | 15.0% | Yes |
| | 33.1 | 19,793 | 14/10/09 | 19,793 | 11.00 | 19.42 | 15.0% | Yes |
| | 34.1 | 8,483 | 14/10/09 | 8,483 | 11.00 | 19.42 | 20.0% | Yes |
| | | 80,335 | | 80,335 | | | | |
| Mr P. Green | 14.3 | 3,333 | 20/08/09 | 3,333 | 3.33 | 17.75 | n/a | n/a |
| | 20.2 | 5,000 | 20/08/09 | 5,000 | 4.81 | 17.75 | n/a | n/a |
| | 32.1 | 10,000 | 20/08/09 | 10,000 | 11.00 | 17.75 | n/a | n/a |
| | | 18,333 | | 18,333 | | | | |
| Mr C. Trainor | | – | n/a | n/a | n/a | n/a | n/a | n/a |
| | | 495,923 | | 495,923 | | | | |

No options lapsed during the annual reporting period in relation to the identified Group key management personnel.

*Value of options – basis of calculation*

Options exercised during the year by the identified Group key management personnel were granted between 22/07/2005 and 20/08/2007.

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

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

The total value of options included in remuneration for the year is calculated in accordance with Australian equivalents to International Financial Reporting Standards. This requires that the value of the option is determined at grant date, and is included in remuneration on a proportionate basis from grant date to vesting date. Where the options immediately vest, the full value of the option is recognised in remuneration in the current year.

**Proceedings on behalf of the Company**

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

**Non-audit services**

For a Group of the size and complexity of JB Hi-Fi, it can be in the interests of the Group to engage the services of its external 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 its external auditor.

The directors are satisfied that the provision of 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.

The directors are of the opinion that the services as disclosed in note 9 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit and Risk Management Committee, 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 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.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 9 to the financial statements.

**Auditor's independence declaration**

The auditor's independence declaration is included on page 34, of the Annual Report.

**Rounding off of amounts**

The Company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars. Amounts in the directors' report have been rounded off to the nearest whole dollar, 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

| | |
|---|---|
| **Patrick Elliott** | **Terry Smart** |
| Chairman | Chief Executive Officer |

Melbourne,
6 August 2010

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

6 August 2010

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 2010, 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

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**Independent Auditor's Report to the members of JB Hi-Fi Limited**

**Report on the Financial Report**

We have audited the accompanying financial report of JB Hi-Fi Limited (the company), which comprises the balance sheet as at 30 June 2010, and the income statement, the statement of comprehensive income, the statement of cash flows and statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 37 to 79.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditor's Responsibility*

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

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

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

**Deloitte.**

*Auditor's Independence Declaration*

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

*Auditor's Opinion*

*In our opinion:*

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

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 17 to 33 of the directors' report for the year ended 30 June 2010. 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.

*Auditor's Opinion*

In our opinion the Remuneration Report of JB Hi-Fi Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001.*

DELOITTE TOUCHE TOHMATSU

TOM IMBESI
Partner
Chartered Accountants

Melbourne,
6 August 2010

## DIRECTORS' DECLARATION

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Group 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 Group; and

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

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

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 34 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

**Patrick Elliott**
Chairman

**Terry Smart**
Chief Executive Officer

Melbourne,
6 August 2010

## INCOME STATEMENT
for the financial year ended 30 June 2010

| | Notes | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|---|
| Revenue | 3 | 2,731,320 | 2,327,266 |
| Cost of sales | | (2,137,146) | (1,823,675) |
| **Gross profit** | | 594,174 | 503,591 |
| Other income | 4 | 1,710 | 1,653 |
| Sales and marketing expenses | | (265,142) | (230,411) |
| Occupancy expenses | | (101,067) | (84,551) |
| Administration expenses | | (24,911) | (21,288) |
| Other expenses | | (28,206) | (25,465) |
| Finance costs | 5 | (6,957) | (8,036) |
| Profit before tax | | 169,601 | 135,493 |
| Income tax expense | 6 | (50,949) | (41,055) |
| **Profit for the year** | | 118,652 | 94,438 |
| | | | |
| Attributable to: | | | |
| Equity holders of the parent | | 118,652 | 94,438 |
| | | 118,652 | 94,438 |
| | | Cents | Cents |
| **Earnings per share** | | | |
| Basic (cents per share) | 30 | 109.74 | 88.26 |
| Diluted (cents per share) | 30 | 108.42 | 87.63 |

## KEY STATISTICAL DATA
for the financial year end 30 June 2010

| | 2010 | 2009 |
|---|---|---|
| Gross margin percentage | 21.75% | 21.64% |
| Rent for trading stores as a percentage of sales (i) | 2.02% | 2.01% |
| Cost of doing business as a percentage of sales | 14.49% | 14.73% |
| Earnings before interest and taxation (EBIT) margin | 6.41% | 6.10% |
| Number of stores at end of the period | 141 | 123 |

(i) Based on actual rent and outgoings for the financial year, excluding the impact of A-IFRS straight-line rent adjustment. Including the A-IFRS adjustment, rent as a percentage of sales would be 2.10% (2009: 2.13%)

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

| | Consolidated | |
|---|---|---|
| | *2010* *$'000* | *2009* *$'000* |
| **PROFIT FOR THE YEAR** | 118,652 | 94,438 |
| **Other comprehensive income** | | |
| Changes in the fair value of cash flow hedges (net of tax) | 1,059 | (1,577) |
| Exchange differences on translation of foreign operations | 277 | (1,440) |
| **Other comprehensive income for the year** | 1,336 | (3,017) |
| **Total comprehensive income for the year** | 119,988 | 91,421 |
| Total comprehensive income attributable to: | | |
| Equity holders of the parent | 119,988 | 91,421 |
| | 119,988 | 91,421 |

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

# BALANCE SHEET
as at 30 June 2010

| | | Consolidated | |
|---|---|---|---|
| | Notes | *2010 $'000* | *2009 $'000* |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 10 | 51,735 | 35,790 |
| Trade and other receivables | 11 | 63,499 | 60,269 |
| Inventories | 12 | 334,754 | 324,519 |
| Other | 13 | 4,520 | 5,661 |
| **Total current assets** | | 454,508 | 426,239 |
| **Non-current assets** | | | |
| Other financial assets | 14 | 3 | 3 |
| Plant and equipment | 15 | 163,982 | 136,063 |
| Deferred tax assets | 16 | 11,968 | 17,994 |
| Intangible assets | 17 | 83,861 | 81,352 |
| **Total non-current assets** | | 259,814 | 235,412 |
| **Total assets** | | 714,322 | 661,651 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 18 | 289,505 | 273,950 |
| Borrowings | 19 | 35,000 | - |
| Other financial liabilities | 20 | 684 | 1,554 |
| Current tax liabilities | 21 | 10,011 | 18,204 |
| Provisions | 22 | 25,975 | 28,235 |
| Other current liabilities | 23 | 1,964 | 1,781 |
| **Total current liabilities** | | 363,139 | 323,724 |
| **Non-current liabilities** | | | |
| Borrowings | 24 | 34,624 | 89,358 |
| Provisions | 25 | 4,421 | 3,829 |
| Other non-current liabilities | 26 | 18,763 | 14,900 |
| Other financial liabilities | 27 | 79 | 588 |
| **Total non-current liabilities** | | 57,887 | 108,675 |
| **Total liabilities** | | 421,026 | 432,399 |
| **Net assets** | | 293,296 | 229,252 |
| **EQUITY** | | | |
| Contributed equity | 28 | 53,578 | 44,783 |
| Reserves | 29(a) | 3,873 | 193 |
| Retained earnings | 29(b) | 235,845 | 184,276 |
| **Total equity** | | 293,296 | 229,252 |

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

| Consolidated | Notes | Contributed equity $'000 | Reserves $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2008** | | 39,544 | 1,291 | 123,055 | 163,890 |
| Profit for the year | | – | – | 94,438 | 94,438 |
| Cash flow hedges | 29 | – | (1,577) | – | (1,577) |
| Exchange differences on translation of foreign operations | 29 | – | (1,440) | – | (1,440) |
| **Total comprehensive income for the year** | | – | (3,017) | 94,438 | 91,421 |
| Issue of shares under share option plan | 28 | 4,159 | – | – | 4,159 |
| Transfer from equity-settled benefits reserve | 28 | 1,080 | (1,080) | – | – |
| Dividends provided for or paid | 31 | – | – | (33,217) | (33,217) |
| Employee share options - value of employee services | 29 | – | 2,999 | – | 2,999 |
| **Balance at 30 June 2009** | | 44,783 | 193 | 184,276 | 229,252 |
| | | | | | |
| **Balance at 1 July 2009** | | 44,783 | 193 | 184,276 | 229,252 |
| Profit for the year | | – | – | 118,652 | 118,652 |
| Cash flow hedges | 29 | – | 1,059 | – | 1,059 |
| Exchange differences on translation of foreign operations | 29 | – | 277 | – | 277 |
| **Total comprehensive income for the year** | | – | 1,336 | 118,652 | 119,988 |
| Issue of shares under share option plan | 28 | 6,838 | – | – | 6,838 |
| Transfer from equity-settled benefits reserve | 28 | 1,957 | (1,957) | – | – |
| Dividends provided for or paid | 31 | – | – | (67,083) | (67,083) |
| Employee share options - value of employee services | 29 | – | 4,301 | – | 4,301 |
| | | 8,795 | 2,344 | (67,083) | (55,944) |
| **Balance at 30 June 2010** | | 53,578 | 3,873 | 235,845 | 293,296 |

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

## STATEMENT OF CASH FLOWS
for the financial year ended 30 June 2010

| | Notes | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 2,965,823 | 2,511,888 |
| Payments to suppliers and employees | | (2,755,140) | (2,318,308) |
| Interest and bill discounts received | | 1,448 | 1,564 |
| Interest and other costs of finance paid | | (6,491) | (8,310) |
| Income taxes paid | | (53,537) | (41,257) |
| **Net cash (outflow) inflow from operating activities** | 39 | 152,103 | 145,577 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (54,460) | (44,444) |
| Proceeds from sale of plant and equipment | | 1,063 | 591 |
| Payments for intangible assets | | (2,388) | - |
| **Net cash (outflow) inflow from investing activities** | | (55,785) | (43,853) |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | | (20,000) | (35,278) |
| Proceeds from issues of equity securities | | 6,838 | 4,159 |
| Dividends paid to members of the parent entity | 31 | (67,083) | (33,217) |
| **Net cash (outflow) inflow from financing activities** | | (80,245) | (64,336) |
| **Net increase (decrease) in cash and cash equivalents** | | 16,073 | 37,388 |
| Cash and cash equivalents at the beginning of the financial year | | 35,790 | (1,492) |
| Effects of exchange rate changes on cash and cash equivalents | | (128) | (106) |
| **Cash and cash equivalents at end of year** | 10 | 51,735 | 35,790 |

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements include the consolidated entity consisting of JB Hi-Fi Limited and its subsidiaries.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Interpretations and the *Corporations Act 2001.*

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).

The financial statements were authorised for issue by the directors on 6 August 2010.

*Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, and certain classes of property, plant and equipment.

*Critical accounting estimates*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

### (b) Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

### (c) Principles of consolidation

*(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of JB Hi-Fi Limited ("company" or "parent entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. JB Hi-Fi Limited and its subsidiaries together are referred to in this financial report as the Company or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Company (refer to note 1(f)).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (d) Borrowings

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 Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, and intends to do so.

### (e) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

### (f) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Company recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

### (g) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

### (h) Contributed equity

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

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.

### (i) 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 Company 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).

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**(i) Derivatives and hedging activities (cont.)**

The Company 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 Company 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 40. Movements in the hedging reserve in shareholders' equity are shown in note 29. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

*(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 expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative 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 in profit or loss when the foreign operation is partially disposed of or sold.

*(iii) Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

**(j) Dividends**

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

**(k) Employee benefits**

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service 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 is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**(k) Employee benefits (cont.)**

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service 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. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

**(l) Foreign currency translation**

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Company's operations are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The financial statements are presented in Australian dollars, which is the Company'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 the 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.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

*(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 for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income 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, a proportionate share of such exchange difference is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (m) 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.

### (n) Impairment of assets

Goodwill and 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. Other assets 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (o) Income tax

*Current tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. 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. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interest in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary difference and they are expected to reverse in the foreseeable future.

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.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**(o) Income tax (cont.)**

*Current and deferred tax for the period*

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill.

*Tax consolidation*

The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. JB Hi-Fi Limited is the head entity in the tax-consolidated group. 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).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the tax-consolidated group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is disclosed in note 6.

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.

**(p) Intangible assets**

*(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business/associate at the date of acquisition. Goodwill on acquisitions of businesses is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

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 and is not reversed in a subsequent period.

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.

*(ii) Brand names and trademarks*

Brand names recognised by the Group have an indefinite life and are not amortised. Each period, the useful life of this asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment in accordance with the policy stated in note 1(n).

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**(p) Intangible assets (cont.)**

*(iii) Rights to profit share*

Management rights in relation to the profit share agreement of the Highpoint store have been recorded at the cost of acquisition. The directors gave due consideration to the technical and commercial life of the rights to determine their useful life and have assessed them to have an indefinite life. The profit share is not amortised and the carrying value is tested for impairment as part of the annual testing of cash generating units.

*(iv) Location premiums*

Location premiums represent the amounts paid to secure the rights to prime retail lease space. The location premiums recognised have an indefinite life and are not amortised. Each period, the useful lives of the assets are reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the assets. Such assets are tested for impairment in accordance with the policy stated in note 1(n).

**(q) Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs necessary to make the sale.

**(r) Investments and other financial assets**

Loans and receivables are carried at amortised cost using the effective interest method.

Investments in subsidiaries are measured at cost in the Company financial statements. Investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements.

**(s) Leases**

Leases are classified as finance leases, whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the lessee. All other leases are classified as operating leases.

*Finance leases*

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Finance leased assets are amortised on a straight-line basis over the estimated useful life of the asset.

*Operating leases*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

*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, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases (note 32). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**(t) Plant and equipment**

Plant and equipment, leasehold improvements and equipment under finance leases are stated at cost less accumulated depreciation and impairment (if any). Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on plant and equipment. 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. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. 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

**(u) Provisions**

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.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**(v) 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 Company 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 Company's activities as described below. The Company 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 - retail*

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) Interest income*

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that assets net carrying amount.

*(iii) Dividends*

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (w) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Chief Executive Officer.

*Change in accounting policy*

The Company has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting.* The new standard requires a 'management approach', under which operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The adoption of AASB 8 has resulted in a redesignation of the Group's reportable segments (see note 35), but has no impact on the reported results or financial position of the Group.

### (x) Share-based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at grant date. Fair value is measured by use of the Black Scholes model. 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 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.

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with corresponding adjustment to equity-settled benefits reserve.

### (y) Trade and other payables

These amounts 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

### (z) Trade receivables

Trade receivables are recognised at amortised less provision for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. 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 present value of estimated future cash flows, discounted at the original effective interest rate.

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 uncollectable 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.

### (aa) New accounting standards and interpretations

In the current year, the Group has adopted all of the 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. The adoption of these new and revised Standards and Interpretations did not have any material financial impact on the amounts recognised in the financial statements of the Group, however they have impacted the disclosures presented in the financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (aa) New accounting standards and interpretations (cont.)

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

(i) AASB 1053 *Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective for annual periods beginning on or after 1 July 2013 but may be early adopted for annual reporting period beginning on or after 1 July 2009)

(ii) AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective for annual periods beginning or after 1 July 2010)

(iii) AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective for annual periods beginning or after 1 July 2011)

(iv) AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective for annual periods beginning on or after 1 January 2010)

(v) AASB 2009-8 *Amendments to Australian Accounting Standards - Group Cash-Settled Share-based Payment Transactions [AASB2]* (effective from 1 January 2010)

(vi) AASB 2009-10 *Amendments to Australian Accounting Standards - Classification of Rights Issues [AASB 132]* (effective for annual reporting periods beginning on or after 1 February 2010)

(vii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective for annual reporting periods beginning on or after 1 January 2011)

(viii) AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* (effective for annual reporting periods beginning on or after 1 January 2013)

(ix) AASB Interpretation 19 *Extinguishing financial liabilities with equity instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* (effective 1 July 2010)

(x) AASB 2009-14 *Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement* (effective 1 January 2011)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group.

## 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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 entity and that are believed to be reasonable under the circumstances.

### (a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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 discussed below.

*Impairment of goodwill and other intangible assets*

The Company tests annually whether goodwill and other intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1(n). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 17 for details of these assumptions and the potential impact of changes to the assumptions.

**2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (cont.)**

**(b) Critical judgements in applying the entity's accounting policies**

*Inventories*

The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell. The key assumptions require the use of management judgement and are reviewed annually. These key assumptions are the variables affecting the expected selling price. Any reassessment of the selling price in a particular year will affect the cost of goods sold.

*Employee entitlements*

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.

| | Consolidated | |
|---|---|---|
| | *2010 $'000* | *2009 $'000* |
| **3. REVENUE** | | |
| Sale of goods | 2,731,320 | 2,327,266 |
| | | |
| **4. OTHER INCOME** | | |
| Interest received - banks | 1,448 | 1,562 |
| Other income | 262 | 91 |
| | 1,710 | 1,653 |
| **5. EXPENSES** | | |
| **Profit before income tax includes the following specific expenses:** | | |
| *Depreciation* | | |
| Plant and equipment | 14,550 | 11,970 |
| Leasehold improvements | 8,727 | 6,779 |
| | 23,277 | 18,749 |
| *Finance costs* | | |
| Interest on loans | 5,157 | 7,415 |
| Fair value loss/(gain) on interest rate swaps designated as cash flow hedges - transfer from equity | 1,535 | 307 |
| Other interest expense | 265 | 312 |
| Finance lease charge | - | 2 |
| | 6,957 | 8,036 |
| *Rental expense relating to operating leases* | | |
| Minimum lease payments | 58,379 | 49,806 |
| | | |
| *Employee benefits expense* | | |
| Defined contribution superannuation expense | 18,107 | 15,310 |
| Equity settled share-based payments | 4,301 | 2,999 |
| Other employee benefits | 238,106 | 207,425 |
| | 260,514 | 225,734 |
| | | |
| Net foreign exchange (gains)/losses | (11) | 7 |
| Net loss on disposal of plant and equipment | 2,313 | 2,063 |
| Impairment of trade receivables | 77 | 69 |
| Inventory shrinkage (i) | 8,429 | 7,608 |

(i) Shrinkage as a percentage of sales was 0.31% (2009: 0.33%)

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **6. INCOME TAX EXPENSE** | | |
| **(a) Income tax expense** | | |
| Current tax | 44,923 | 48,122 |
| Deferred tax | 6,026 | (7,067) |
| Total tax expense | 50,949 | 41,055 |
| **(b) Numerical reconciliation of income tax expense to prima facie tax payable** | | |
| Profit from continuing operations before income tax expense | 169,601 | 135,493 |
| Income tax expense calculated at 30% (2009 : 30%) | 50,880 | 40,648 |
| Effect of expenses that are not deductible in determining taxable profit | 1,225 | 1,157 |
| Impact of changes in offshore tax rates | 244 | - |
| Other | (1,400) | (750) |
| | 50,949 | 41,055 |
| **(c) Amounts recognised directly in equity** | | |
| The following current and deferred amounts were charged directly to equity during the period: | | |
| *Deferred tax* | | |
| Tax effect of hedge gains/(losses) in reserves | 356 | (676) |

**(d) 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 33.

*Nature of tax funding arrangements 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.

## 7. KEY MANAGEMENT PERSONNEL DISCLOSURES

### (a) Key management personnel compensation

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

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| Short-term employee benefits | 7,151,111 | 5,514,411 |
| Post-employment benefits | 286,819 | 295,256 |
| Share-based payments | 2,002,381 | 1,485,848 |
| | 9,440,311 | 7,295,515 |

Detailed remuneration disclosures are provided in the remuneration report on pages 17 to 33.

### (b) Equity instrument disclosures relating to key management personnel

**Share options of JB Hi-Fi Limited**

Details of key management personnel option holdings are as follows:

| 2010 (i) | *Balance at start of the year* | *Granted as compensation* | *Exercised* | *Other changes* | *Balance at end of the year* | *Vested and exercisable* | *Unvested* |
|---|---|---|---|---|---|---|---|
| T. Smart (ii) | 532,917 | – | (136,872) | – | 396,045 | – | 396,045 |
| R. Murray | 287,981 | – | (80,335) | – | 207,646 | – | 207,646 |
| S. Browning | 287,326 | – | (80,335) | – | 206,991 | – | 206,991 |
| C. Trainor | – | 78,844 | – | – | 78,844 | – | 78,844 |
| P. Green | 78,333 | – | (18,333) | – | 60,000 | – | 60,000 |
| | 1,186,557 | 78,844 | (315,875) | – | 949,526 | – | 949,526 |

(i) Mr Uechtritz resigned from his position as CEO and Executive Director on 28 May 2010. During the period to 28 May 2010, Mr Uechtritz exercised 180,048 options. At the date of his resignation, Mr Uechtritz held 621,923 options.

(ii) Excludes any options that may be approved by the Board in August 2010. The issue of any options to Mr Smart, an executive director of the Company, is also subject to shareholder approval at the Company's Annual General Meeting in October 2010.

| 2009 | *Balance at start of the year* | *Granted as compensation* | *Exercised* | *Other changes* | *Balance at end of the year* | *Vested and exercisable* | *Unvested* |
|---|---|---|---|---|---|---|---|
| R. Uechtritz (i) | 679,533 | 396,211 | (273,773) | – | 801,971 | – | 801,971 |
| T. Smart (i) | 491,104 | 240,014 | (198,201) | – | 532,917 | – | 532,917 |
| R. Murray | 314,234 | 124,430 | (150,683) | – | 287,981 | – | 287,981 |
| S. Browning | 352,234 | 123,775 | (188,683) | – | 287,326 | – | 287,326 |
| S. Duff | 30,000 | 35,000 | – | – | 65,000 | – | 65,000 |
| | 1,867,105 | 919,430 | (811,340) | – | 1,975,195 | – | 1,975,195 |

(i) Includes options granted by the Board on 29 June 2009 and approved by the shareholders at the Company's Annual General Meeting in October 2009.

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

During the financial year 495,923 (2009: 811,340) options were exercised by key management personnel at a weighted average exercise price of $6.93 (2009: $2.97) per ordinary share in JB Hi-Fi Limited. No amounts remain unpaid on the options exercised during the financial year at year end.

## 7. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont.)

### (b) Equity instrument disclosures relating to key management personnel (cont.)

**Fully paid ordinary shares of JB Hi-Fi Limited**

Details of key management personnel equity holdings are as follows:

| 2010 (i) | *Balance at the start of the year* | *Granted during reporting year as compensation* | *Received during the year on the exercise of options* | *Other changes during the year* | *Balance at the end of the year* | *Balance held nominally* |
|---|---|---|---|---|---|---|
| P. Elliott | 249,732 | – | – | (40,000) | 209,732 | 10,000 |
| J. King | 32,258 | – | – | – | 32,258 | 32,258 |
| G. Levin | 30,000 | – | – | – | 30,000 | – |
| W. Fraser | 6,451 | – | – | – | 6,451 | 6,451 |
| G. Richards | 23,000 | – | – | – | 23,000 | 23,000 |
| T. Smart | 1,531,157 | – | 136,872 | (168,029) | 1,500,000 | – |
| R. Murray | 151,433 | – | 80,335 | (107,545) | 124,223 | 750 |
| S. Browning | 188,683 | – | 80,335 | (188,683) | 80,335 | – |
| C. Trainor | – | – | – | – | – | – |
| P. Green | 2,234 | – | 18,333 | (20,533) | 34 | – |
| | 2,214,948 | – | 315,875 | (524,790) | 2,006,033 | 72,459 |

(i) Mr Uechtritz resigned from his position as CEO and Executive Director on 28 May 2010. During the period to 28 May 2010, Mr Uechtritz received 180,048 ordinary shares on exercise of options and disposed 1,180,048 ordinary shares. At the date of his resignation, Mr Uechtritz held 1,000,000 ordinary shares.

| 2009 | *Balance at the start of the year* | *Granted during reporting year as compensation* | *Received during the year on the exercise of options* | *Other changes during the year* | *Balance at the end of the year* | *Balance held nominally* |
|---|---|---|---|---|---|---|
| P. Elliott | 250,000 | – | – | (268) | 249,732 | 11,400 |
| J. King | 32,258 | – | – | – | 32,258 | 32,258 |
| G. Levin | 50,000 | – | – | (20,000) | 30,000 | – |
| W. Fraser | 6,451 | – | – | – | 6,451 | 6,451 |
| G. Richards | 23,000 | – | – | – | 23,000 | 23,000 |
| R. Uechtritz | 3,115,000 | – | 273,773 | (1,388,773) | 2,000,000 | – |
| T. Smart | 1,722,956 | – | 198,201 | (390,000) | 1,531,157 | – |
| R. Murray | 162,400 | – | 150,683 | (161,650) | 151,433 | 750 |
| S. Browning | 127,017 | – | 188,683 | (127,017) | 188,683 | – |
| S. Duff (i) | – | – | – | – | – | – |
| | 5,489,082 | – | 811,340 | (2,087,708) | 4,212,714 | 73,859 |

(i) Group management

## 8. SHARE-BASED PAYMENTS

### (a) Executive and employee share option plan

The Group has an ownership-based remuneration scheme for employees and executives (excluding non-executive directors). In accordance with the provisions of the scheme, employees and executives within the Group are granted options to purchase parcels of ordinary shares at various issue prices. The options vest a third each, on the second, third and fourth anniversary of issue providing that performance conditions, where they exist, are met. The options expire within five years of their issue, or one month after the executive's resignation, whichever is earlier.

Since July 2004, all options issued to Group directors and executives under the Group's long-term incentive program have included a performance hurdle requiring compound annual EPS growth of between 10% and 20%.

## 8. SHARE-BASED PAYMENTS (cont.)

### (a) Executive and employee share option plan (cont.)

The following reconciles the outstanding share options granted under the employee and executive share option plan at the beginning and end of the financial year:

| 2010 | *Balance at start of the year Number* | *Granted during the year Number* | *Exercised during the year Number* | *Balance at end of the year Number* | *Vested and exercisable at end of the year Number* |
|---|---|---|---|---|---|
| Outstanding Share Options | 4,398,925 | 161,105 | (1,098,321) | 3,461,709 | 160,007 |
| Weighted average exercise price | $10.40 | $20.50 | $6.23 | $12.19 | $7.74 |

| 2009 | *Balance at start of the year Number* | *Granted during the year Number* (i) | *Exercised during the year Number* | *Balance at end of the year Number* | *Vested and exercisable at end of the year Number* |
|---|---|---|---|---|---|
| Outstanding Share Options | 3,842,790 | 2,027,430 | (1,471,295) | 4,398,925 | 218,664 |
| Weighted average exercise price | $6.10 | $13.62 | $3.60 | $10.40 | $4.82 |

(i) Includes options granted by the Board on 29 June 2009 and approved by the shareholders at the Company's Annual General Meeting in October 2009.

The weighted average remaining contractual life of share options outstanding at the end of the period was 1,041 days (2009 - 1,174 days).

*Fair value of options granted*

The weighted average fair value at grant date of options granted during the year ended 30 June 2010 was $6.88 per option (2009 - $4.24). The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The expected price volatility is based on the daily closing share price for the 3.44 years preceding the issue of the series.

All option series have an expiry of five years from grant date, however the expected life of options granted during the year ended 30 June 2010 was reduced to 3.44 years to allow for the effects of early exercise based on prior years' experience.

Detailed share option disclosures for all options series granted and exercised during the year are provided in the remuneration report on pages 17 to 33.

## 9. REMUNERATION OF AUDITORS

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| **(a) Auditor of the parent entity** | | |
| Audit and review of financial reports | 299,600 | 291,500 |
| Other services | – | – |
| Total remuneration for audit and other services | 299,600 | 291,500 |
| **(b) Other auditors** | | |
| Audit and review of financial reports | 33,400 | 32,500 |
| Other services | – | – |
| Total remuneration for audit and other services | 33,400 | 32,500 |
| | 333,000 | 324,000 |

The auditor of JB Hi-Fi Limited is Deloitte Touche Tohmatsu.

The auditor of JB Hi-Fi Group (NZ) Limited is Deloitte Touche Tohmatsu (New Zealand)

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **10. CURRENT ASSETS - CASH AND CASH EQUIVALENTS** | | |
| Cash at bank and in hand | 51,735 | 35,790 |
| **11. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES** | | |
| Trade receivables | 10,350 | 12,214 |
| Allowance for doubtful debts | (281) | (514) |
| | 10,069 | 11,700 |
| Non-trade receivables | 53,430 | 48,350 |
| Goods and services tax (GST) recoverable | - | 219 |
| | 63,499 | 60,269 |

**(a) Terms and conditions**

*Trade receivables*

The average credit period on sales of goods is 30 days. No interest is charged on trade receivables.

An allowance has been made for estimated irrecoverable amounts arising from a review of individual debtors. Credit insurance is carried for commercial debtor accounts.

*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 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **(b) Ageing of trade receivables** | | |
| Not past due | 8,747 | 9,219 |
| Past due but not impaired: | | |
| 0 - 30 days | 1,180 | 958 |
| 31 - 60 days | 142 | 566 |
| 61 - 90 days | – | 295 |
| 91+ days | – | 662 |
| | 10,069 | 11,700 |
| **(c) Movements in allowance for doubtful debts** | | |
| Balance at the beginning of the year | 514 | 463 |
| Provision for impairment recognised during the year | 77 | 69 |
| Receivables written off during the year as uncollectible | (113) | (18) |
| Amounts recovered | (197) | – |
| | 281 | 514 |

## 11. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES (cont.)

### (d) Ageing of allowance for doubtful debts

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| 0 - 30 days | – | – |
| 31 - 60 days | – | – |
| 61 - 90 days | 45 | – |
| 91+ days | 236 | 514 |
| | 281 | 514 |

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.

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **12. CURRENT ASSETS - INVENTORIES** | | |
| Finished goods | 334,754 | 324,519 |
| **13. CURRENT ASSETS - OTHER** | | |
| Prepayments | 3,136 | 3,327 |
| Deposits | 1,384 | 2,334 |
| | 4,520 | 5,661 |
| **14. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS** | | |
| Equity securities | 3 | 3 |

## 15. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

| | *Plant and equipment $'000* | *Leasehold improvements $'000* | *Total $'000* |
|---|---|---|---|
| **At 1 July 2008** | | | |
| Cost | 100,596 | 53,812 | 154,408 |
| Accumulated depreciation | (27,979) | (13,506) | (41,485) |
| Net book amount | 72,617 | 40,306 | 112,923 |
| **Year ended 30 June 2009** | | | |
| Opening net book amount | 72,617 | 40,306 | 112,923 |
| Exchange differences | 21 | 94 | 115 |
| Additions | 28,918 | 15,511 | 44,429 |
| Disposals | (1,373) | (1,282) | (2,655) |
| Depreciation charge | (11,970) | (6,779) | (18,749) |
| Closing net book amount | 88,213 | 47,850 | 136,063 |
| **At 30 June 2009** | | | |
| Cost | 125,548 | 67,841 | 193,389 |
| Accumulated depreciation | (37,335) | (19,991) | (57,326) |
| Net book amount | 88,213 | 47,850 | 136,063 |
| **Year ended 30 June 2010** | | | |
| Opening net book amount | 88,213 | 47,850 | 136,063 |
| Exchange differences | 63 | 48 | 111 |
| Additions | 34,919 | 19,542 | 54,461 |
| Disposals | (2,085) | (1,291) | (3,376) |
| Depreciation charge | (14,550) | (8,727) | (23,277) |
| Closing net book amount | 106,560 | 57,422 | 163,982 |
| **At 30 June 2010** | | | |
| Cost | 151,709 | 85,272 | 236,981 |
| Accumulated depreciation | (45,149) | (27,850) | (72,999) |
| Net book amount | 106,560 | 57,422 | 163,982 |

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **16. NON-CURRENT ASSETS - DEFERRED TAX ASSETS** | | |
| **The balance comprises temporary differences attributable to:** | | |
| **Deferred tax assets** | | |
| Tax losses | 3,536 | 3,791 |
| Provisions | 11,914 | 12,056 |
| Trade and other receivables | 83 | 154 |
| Inventories | 2,993 | 2,796 |
| Plant and equipment | – | 182 |
| Trade and other payables | 1,988 | 1,027 |
| Cash flow hedges | 229 | 643 |
| | 20,743 | 20,649 |
| **Deferred tax liabilities** | | |
| Trade and other receivables | (1,296) | (901) |
| Plant and equipment | (7,479) | (1,754) |
| | (8,775) | (2,655) |
| Net deferred tax assets | 11,968 | 17,994 |

| **Movements - Consolidated** | *Tax losses $'000* | *Provisions $'000* | *Trade and other receivables $'000* | *Inventories $'000* | *Plant and equipment $'000* | *Trade and other payables $'000* | *Cash flow hedges $'000* | *Total $'000* |
|---|---|---|---|---|---|---|---|---|
| **At 1 July 2008** | 2,438 | 7,135 | (972) | 2,422 | (862) | 947 | (181) | 10,927 |
| Charged to income | 1,353 | 4,921 | 225 | 374 | (710) | 80 | 824 | 7,067 |
| **At 30 June 2009** | 3,791 | 12,056 | (747) | 2,796 | (1,572) | 1,027 | 643 | 17,994 |
| **At 1 July 2009** | 3,791 | 12,056 | (747) | 2,796 | (1,572) | 1,027 | 643 | 17,994 |
| Charged to income | (255) | (142) | (466) | 197 | (5,907) | 961 | (414) | (6,026) |
| **At 30 June 2010** | 3,536 | 11,914 | (1,213) | 2,993 | (7,479) | 1,988 | 229 | 11,968 |

## 17. NON-CURRENT ASSETS - INTANGIBLE ASSETS

| | *Goodwill $'000* | *Brandnames $'000* | *Location premiums $'000* | *Rights to profit share $'000* | *Total $'000* |
|---|---|---|---|---|---|
| **Year ended 30 June 2009** | | | | | |
| Opening net book amount | 34,538 | 43,094 | – | 3,542 | 81,174 |
| Exchange differences | 178 | – | – | – | 178 |
| Additions | – | – | – | – | – |
| Closing net book amount | 34,716 | 43,094 | – | 3,542 | 81,352 |
| **Year ended 30 June 2010** | | | | | |
| Opening net book amount | 34,716 | 43,094 | – | 3,542 | 81,352 |
| Exchange differences | 121 | – | – | – | 121 |
| Additions | – | – | 2,388 | – | 2,388 |
| Closing net book amount | 34,837 | 43,094 | 2,388 | 3,542 | 83,861 |

## 17. NON-CURRENT ASSETS - INTANGIBLE ASSETS (cont.)

Brand names, location premiums and rights to profit share are assessed as having indefinite useful lives and relate to the Australian cash generating unit. This assessment reflects management's intention to continue to utilise these intangible assets into the foreseeable future.

The recoverable amount of other intangible assets has been determined based on value in use calculations using the same methodology as detailed below.

### (a) Impairment tests for goodwill

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

| Consolidated | *2010 $'000* | *2009 $'000* |
|---|---|---|
| Clive Anthonys | 18,288 | 18,288 |
| Impact Records | 1,727 | 1,727 |
| JB New Zealand | 12,543 | 12,422 |
| Rocket Replacements | 2,279 | 2,279 |
| | 34,837 | 34,716 |

The recoverable amount of each CGU (or group of CGUs) has been determined based on value in use calculations which use cash flow projections from financial budgets approved by management covering a five year period, using a discount rate of 11.0% for JB Australia (2009: 11.0%), 13.5% for Clive Anthonys (2009: 13.5%) and 11.5% for JB New Zealand (2009: 13.0%). The cash flows beyond the budget period have been extrapolated using a steady 2% long-term growth rate (2009: 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.

Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU (or group of CGU's).

| | Consolidated | |
|---|---|---|
| | *2010 $'000* | *2009 $'000* |
| **18. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES** | | |
| Trade payables | 257,081 | 246,260 |
| Goods and services tax (GST) payable | 5,803 | 4,454 |
| Other creditors and accruals | 8,655 | 10,094 |
| Deferred income | 17,966 | 13,142 |
| | 289,505 | 273,950 |
| **19. CURRENT LIABILITIES - BORROWINGS** | | |
| **Secured** | | |
| Bank loans (i) | 35,000 | – |

(i) Secured by a fixed and floating charge over the Group's assets, the current market value of which exceeds the value of the loan. Amount was repaid on 3 August 2010.

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **20. CURRENT LIABILITIES - OTHER FINANCIAL LIABILITIES** | | |
| Interest rate swaps | 684 | 1,554 |
| **21. CURRENT LIABILITIES - CURRENT TAX LIABILITIES** | | |
| Income tax | 10,011 | 18,204 |
| **22. CURRENT LIABILITIES - PROVISIONS** | | |
| Employee benefits (i) | 23,358 | 24,428 |
| Lease provision (ii) | 2,617 | 3,807 |
| | 25,975 | 28,235 |

(i) The current provision for employee benefits includes $2,983 thousand of annual leave accrued but not expected to be taken within 12 months (2009: $2,392 thousand).

(ii) 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 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **23. CURRENT LIABILITIES - OTHER CURRENT LIABILITIES** | | |
| Lease accrual | 411 | 531 |
| Lease incentive | 1,553 | 1,250 |
| | 1,964 | 1,781 |
| **24. NON-CURRENT LIABILITIES - BORROWINGS** | | |
| **Secured** | | |
| Bank loans (i) | 34,624 | 89,358 |

(i) Secured by a fixed and floating charge over the Group's assets, the current market value of which exceeds the value of the loan.

**25. NON-CURRENT LIABILITIES - PROVISIONS**

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| Employee benefits | 2,275 | 1,724 |
| Lease provision (i) | 2,146 | 2,105 |
| | 4,421 | 3,829 |

(i) 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.

## 25. NON-CURRENT LIABILITIES - PROVISIONS (cont.)

### (a) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

| | Lease provision (i) $'000 |
|---|---|
| **Consolidated - 2010** | |
| Carrying amount at start of year | 5,912 |
| Additional provisions recognised | 566 |
| Amounts used during the year | (1,715) |
| Carrying amount at end of year | 4,763 |

(i) Movement schedule is for the total lease provision, including the current provision (note 22) and the non-current provision (note 25).

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **26. NON-CURRENT LIABILITIES - OTHER NON-CURRENT LIABILITIES** | | |
| Lease accrual | 8,846 | 6,254 |
| Lease incentive | 9,917 | 8,646 |
| | 18,763 | 14,900 |
| **27. NON-CURRENT LIABILITIES - OTHER FINANCIAL LIABILITIES** | | |
| Interest rate swaps | 79 | 588 |

## 28. CONTRIBUTED EQUITY

| | Parent entity | | Parent entity | |
|---|---|---|---|---|
| | *2010 Shares* | *2009 Shares* | *2010 $'000* | *2009 $'000* |
| **Ordinary shares** | | | | |
| Fully paid | 108,344,987 | 107,246,666 | 53,578 | 44,783 |

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

**Movements in ordinary share capital:**

| Date | Details | Number of shares | $'000 |
|---|---|---|---|
| 1 July 2008 | Opening balance | 105,885,372 | 39,544 |
| | Issue of shares under employee & executive share option plan | 1,361,294 | 4,159 |
| | Transfer from equity settled benefits reserve (note 29) | – | 1,080 |
| 30 June 2009 | Balance | 107,246,666 | 44,783 |
| 1 July 2009 | Opening balance | 107,246,666 | 44,783 |
| | Issue of shares under employee & executive share option plan | 1,098,321 | 6,838 |
| | Transfer from equity settled benefits reserve (note 29) | – | 1,957 |
| 30 June 2010 | Balance | 108,344,987 | 53,578 |

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

## 28. CONTRIBUTED EQUITY (cont.)

### (a) Share options

In accordance with the provisions of the employee and executive share option plan, as at 30 June 2010, employees and executives have options over 3,461,709 ordinary shares (of which 3,301,702 were unvested), in aggregate, with various expiry dates.

As at 30 June 2009, employees and executives had options over 4,398,925 ordinary shares (of which 4,180,261 were unvested), in aggregate, with various expiry dates.

Share options granted under the employee and executive share options plan carry no rights to dividends and no voting rights.

### (b) Capital management

The Group's policy is to maintain an optimal capital structure 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, issue new shares or sell assets to reduce debt. The Group's Audit and Risk Management Committee reviews the capital structure on an ongoing basis.

As part of its capital management program, the Group monitors the return on invested capital and the gearing/leverage ratio.

The Group defines return on invested capital as earnings before interest and tax (EBIT) divided by the sum of total equity plus net debt and gearing/leverage as senior debt excluding capitalised borrowing costs, plus bank overdrafts and hire purchase liabilities, divided by earnings before interest, taxation, depreciation and amortisation (EBITDA).

The Board has adopted a policy of monitoring the dividend payout ratio and targeting a payout ratio of 60% 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.

The Group's return on invested capital and gearing/leverage ratios as at 30 June 2010 and 30 June 2009 were as follows:

| | Consolidated | |
|---|---|---|
| | *2010* *$'000* | *2009* *$'000* |
| **(i) Return on invested capital** | | |
| Profit before tax | 169,601 | 135,493 |
| Net finance costs | 5,509 | 6,474 |
| EBIT | 175,110 | 141,967 |
| | | |
| Borrowings | 69,624 | 89,358 |
| Cash and cash equivalents | 51,735 | 35,790 |
| Net debt | 17,889 | 53,568 |
| Total equity | 293,296 | 229,252 |
| Invested capital | 311,185 | 282,820 |
| Return on invested capital | 56.3% | 50.2% |
| | | |
| **(ii) Gearing/leverage** | | |
| Senior debt | 70,000 | 90,000 |
| | | |
| EBIT | 175,110 | 141,967 |
| Depreciation and amortisation | 23,277 | 18,749 |
| EBITDA | 198,387 | 160,715 |
| Gearing/leverage | 0.35 | 0.56 |
| Gearing/leverage (adjusted for cash holdings) | 0.09 | 0.34 |

**28. CONTRIBUTED EQUITY (cont.)**

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

The terms of certain financing arrangements of the Group contain financial covenants that require maintenance of the following ratios:

- fixed charge cover ratio (the sum of earnings before interest, tax, depreciation and amortisation plus operating lease expense plus rent expense divided by the sum of interest expense plus operating lease expense plus rent expense) - not less than 1.75:1; and
- leverage ratio (outstanding debt divided by earnings before interest, tax, depreciation and amortisation) - not greater than 3.50:1.

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

**29. RESERVES AND RETAINED EARNINGS**

| | Consolidated | |
|---|---|---|
| | *2010 $'000* | *2009 $'000* |
| **(a) Reserves** | | |
| Hedging reserve - interest rate swaps | (234) | (1,293) |
| Equity-settled benefits | 7,254 | 4,910 |
| Hedging reserve - net investment | 850 | 850 |
| Foreign currency translation reserve | (2,772) | (3,049) |
| Other reserve | (1,225) | (1,225) |
| | 3,873 | 193 |
| **Movements:** | | |
| **Hedging reserve - interest rate swaps** | | |
| Balance 1 July | (1,293) | 284 |
| (Loss)/gain recognised | (21) | (1,946) |
| Deferred tax | 6 | 584 |
| Transferred to profit or loss | 1,535 | (307) |
| Deferred tax | (461) | 92 |
| Balance 30 June | (234) | (1,293) |
| **Equity-settled benefits** | | |
| Balance 1 July | 4,910 | 2,991 |
| Option expense | 4,301 | 2,999 |
| Transfer to share capital (options exercised) | (1,957) | (1,080) |
| Balance 30 June | 7,254 | 4,910 |
| **Hedging reserve - net investment** | | |
| Balance 1 July | 850 | 850 |
| Gain/(loss) recognised | – | – |
| Balance 30 June | 850 | 850 |
| **Foreign currency translation reserve** | | |
| Balance 1 July | (3,049) | (1,609) |
| Currency translation differences arising during the year | 277 | (1,440) |
| Balance 30 June | (2,772) | (3,049) |
| **Other reserve** | | |
| Balance 1 July | (1,225) | (1,225) |
| Gain/(loss) recognised | – | – |
| Balance 30 June | (1,225) | (1,225) |

## 29. RESERVES AND RETAINED EARNINGS (cont.)

### (b) Retained earnings

Movements in retained earnings were as follows:

| | Consolidated | |
|---|---|---|
| | *2010* *$'000* | *2009* *$'000* |
| Balance 1 July | 184,276 | 123,055 |
| Net profit for the year | 118,652 | 94,438 |
| Dividends | (67,083) | (33,217) |
| Balance 30 June | 235,845 | 184,276 |

### (c) Nature and purpose of reserves

*(i) Hedging reserve - interest rate swaps*

The hedging reserve - interest rate swaps, represents hedging gains and losses recognised on the effective portion of cash flow hedges with respect to the Group's interest rate swaps, as described in note 1(i). The cumulative deferred gain or loss on the interest rate swaps is recognised in the profit or loss when the hedged transaction impacts the profit or loss.

*(ii) Equity-settled benefits*

The equity-settled benefits reserve arises on the grant of share options to employees and executives under the employee and executive share option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 8 to the financial statements.

*(iii) Hedging reserve - net investment*

The hedging reserve - net investment, represents hedging gains and losses recognised on the effective portion of foreign currency loans in previous periods designated as net investment hedges. The gains and losses deferred in the hedging reserve - net investment are recognised in the profit or loss when the foreign operation is disposed.

*(iv) Foreign currency translation reserve*

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 1(l).

*(v) Other reserve*

The other reserve represents the excess of the purchase consideration over the balance of the minority interest in Clive Anthonys Pty Ltd at the date of acquisition.

## 30. EARNINGS PER SHARE

| | Consolidated | |
|---|---|---|
| | *2010 Cents* | *2009 Cents* |
| Basic earnings per share | 109.74 | 88.26 |
| Diluted earnings per share | 108.42 | 87.63 |

### (a) Reconciliations of earnings used in calculating earnings per share

| | Consolidated | |
|---|---|---|
| | *2010 $'000* | *2009 $'000* |
| *Basic earnings per share* | | |
| Profit for the year | 118,652 | 94,438 |
| *Diluted earnings per share* | | |
| Profit for the year | 118,652 | 94,438 |

### (b) Weighted average number of shares used as the denominator

| | Consolidated | |
|---|---|---|
| | *2010 No. '000* | *2009 No. '000* |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 108,118 | 106,995 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options | 1,315 | 774 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | 109,433 | 107,769 |

### (c) Information concerning the classification of securities

*Options*

Options granted to employees under the employee and executive share plan 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. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 8.

## 31. DIVIDENDS

| | Parent entity | |
|---|---|---|
| | *2010 $'000* | *2009 $'000* |
| **(a) Recognised amounts** | | |
| Interim dividend of 33.0 cents (2009 - 15.0 cents) per share: | | |
| Franked to 100% at 30% (2009: 100% at 30%) | 35,751 | 16,083 |
| Final dividend of 29.0 cents (2009 - 16.0 cents) per share: | | |
| Franked to 100% at 30% (2009: 100% at 30%) | 31,332 | 17,134 |
| Total dividends provided for or paid | 67,083 | 33,217 |

### 31. DIVIDENDS (cont.)

| | Parent entity 2010 $'000 | Parent entity 2009 $'000 |
|---|---|---|
| **(b) Dividends not recognised at the end of the reporting period** | | |
| Final dividend for the year ended 30 June 2010 of 33.0 cents (2009 - 29.0 cents) per share: | | |
| Franked to 100% at 30% (2009: 100% at 30%) | 35,754 | 31,102 |

In respect of the financial year ended 30 June 2010, the directors have recommended the payment of a final dividend of 33.0 cents per share franked to 100% at 30% corporate income tax rate. The record date is 23 August 2010.

**(c) Franked dividends**

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| Franking credits available for subsequent financial years based on a tax rate of 30% (2009 - 30%) | 119,406 | 102,866 |

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

The impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $15,323 thousand (2009 - $13,329 thousand).

### 32. COMMITMENTS

*(i) Non-cancellable operating leases*

Operating leases relate to stores with new lease terms of between two to thirteen years, with, in some cases an option to extend. All operating lease contracts 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 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | 52,384 | 43,951 |
| Later than one year but not later than five years | 187,934 | 156,491 |
| Later than five years | 113,569 | 102,943 |
| | 353,887 | 303,385 |

## 33. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(c):

| Name of entity | Country of incorporation | Class of shares | Equity holding 2010 % | Equity holding 2009 % |
|---|---|---|---|---|
| **Parent entity** | | | | |
| JB Hi-Fi Limited (i) | | | | |
| **Subsidiaries** | | | | |
| JB Hi-Fi Group Pty Ltd (ii) | Australia | Ordinary | 100 | 100 |
| JB Hi-Fi (A) Pty Ltd (ii) | Australia | Ordinary | 100 | 100 |
| Clive Anthonys Pty Ltd (ii) | Australia | Ordinary | 100 | 100 |
| Rocket Replacements Pty Ltd (ii) | Australia | Ordinary | 100 | 100 |
| JB Hi-Fi Group (NZ) Limited | New Zealand | Ordinary | 100 | 100 |
| JB Hi-Fi NZ Limited | New Zealand | Ordinary | 100 | 100 |

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

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

## 34. DEED OF CROSS GUARANTEE

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

The consolidated income statement and balance sheet of the entities party to the deed of cross guarantee are provided as follows:

### (a) Consolidated income statement

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Revenue | 2,598,048 | 2,204,964 |
| Cost of sales | (2,024,622) | (1,721,994) |
| Gross profit | 573,426 | 482,970 |
| Other income | 1,673 | 1,385 |
| Sales and marketing expenses | (250,677) | (216,711) |
| Occupancy expenses | (94,202) | (78,301) |
| Administration expenses | (29,324) | (18,986) |
| Finance costs | (6,846) | (6,980) |
| Other expenses | (24,394) | (23,754) |
| Profit before income tax | 169,656 | 139,623 |
| Income tax expense | (50,763) | (42,286) |
| **Profit for the year** | 118,893 | 97,337 |

## 34. DEED OF CROSS GUARANTEE (cont.)

### (b) Balance sheet

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 58,039 | 35,405 |
| Trade and other receivables | 60,577 | 56,478 |
| Inventories | 309,164 | 301,056 |
| Other | 4,502 | 5,423 |
| **Total current assets** | 432,282 | 398,362 |
| **Non-current assets** | | |
| Other financial assets | 51,644 | 51,644 |
| Plant and equipment | 152,884 | 125,434 |
| Deferred tax assets | 8,315 | 14,144 |
| Intangible assets | 71,319 | 68,931 |
| **Total non-current assets** | 284,162 | 260,153 |
| **Total assets** | 716,444 | 658,515 |
| **Current liabilities** | | |
| Trade and other payables | 278,572 | 262,172 |
| Borrowings | 35,000 | - |
| Other financial liabilities | 684 | 1,554 |
| Current tax liabilities | 10,011 | 18,204 |
| Provisions | 24,237 | 27,061 |
| Other | 1,899 | 1,553 |
| **Total current liabilities** | 350,403 | 310,544 |
| **Non-current liabilities** | | |
| Borrowings | 34,624 | 89,358 |
| Other financial liabilities | 79 | 588 |
| Provisions | 4,421 | 3,829 |
| Other | 23,105 | 14,393 |
| **Total non-current liabilities** | 62,229 | 108,168 |
| **Total liabilities** | 412,632 | 418,712 |
| **Net assets** | 303,812 | 239,803 |
| **Equity** | | |
| Contributed equity | 53,578 | 44,783 |
| Reserves | 6,645 | 3,242 |
| Retained profits | 243,589 | 191,778 |
| **Total equity** | 303,812 | 239,803 |

## 35. SEGMENT INFORMATION

### (a) Description of segments

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

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

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

The segment information provided to the Chief Executive Officer for the reportable segments for the year ended 30 June 2010 is as follows:

| 2010 | Australia *$'000* | New Zealand *$'000* | Total *$'000* |
|---|---|---|---|
| Revenue from external customers | 2,598,048 | 133,272 | 2,731,320 |
| Operating EBITDA | 200,271 | (1,884) | 198,387 |
| Total segment assets | 716,444 | 54,826 | 771,270 |
| Additions to non-current assets | 51,050 | 3,411 | 54,461 |
| Total segment liabilities | 412,632 | 13,701 | 426,333 |

| 2009 | Australia *$'000* | New Zealand *$'000* | Total *$'000* |
|---|---|---|---|
| Revenue from external customers | 2,204,964 | 122,302 | 2,327,266 |
| Operating EBITDA | 162,220 | (1,504) | 160,716 |
| Total segment assets | 658,515 | 55,204 | 713,719 |
| Additions to non-current assets | 40,986 | 3,458 | 44,444 |
| Total segment liabilities | 418,712 | 14,115 | 432,827 |

### (i) Segment revenue

Segment revenue reconciles to total revenue from continuing operations as follows:

| | Consolidated | |
|---|---|---|
| | *2010* *$'000* | *2009* *$'000* |
| **Total segment revenue** | 2,731,320 | 2,327,266 |
| Interest revenue | 1,448 | 1,562 |
| Other revenue | 262 | 91 |
| **Total revenue** | 2,733,030 | 2,328,919 |

## 35. SEGMENT INFORMATION (cont.)

### (b) Segment information provided to the Chief Executive Officer (cont.)

### (ii) Operating EBITDA

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

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

| | Consolidated | |
|---|---|---|
| | *2010 $'000* | *2009 $'000* |
| **Operating EBITDA** | 198,387 | 160,716 |
| Interest revenue | 1,448 | 1,562 |
| Finance costs | (6,957) | (8,036) |
| Depreciation and amortisation expense | (23,277) | (18,749) |
| **Profit before income tax** | 169,601 | 135,493 |

### (iii) Segment assets

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

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

| | Consolidated | |
|---|---|---|
| | *2010 $'000* | *2009 $'000* |
| **Segment assets** | 771,270 | 713,719 |
| Intersegment eliminations | (56,948) | (52,068) |
| **Total assets as per the balance sheet** | 714,322 | 661,651 |

### (iv) Segment liabilities

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

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

| | Consolidated | |
|---|---|---|
| | *2010 $'000* | *2009 $'000* |
| **Segment liabilities** | 426,333 | 432,827 |
| Intersegment eliminations | (5,307) | (428) |
| **Total liabilities as per the balance sheet** | 421,026 | 432,399 |

### (c) Product information

The Group operates in one product and services segment, being the home consumer products retail industry including audiovisual equipment, computing equipment, whitegoods, kitchen appliances and other related equipment.

## 36. PARENT ENTITY FINANCIAL INFORMATION

| | Parent entity | |
|---|---|---|
| | *2010* *$'000* | *2009* *$'000* |
| **Assets** | | |
| Current assets | 4,740 | 214 |
| Non-current assets | 66,808 | 68,097 |
| Total assets | 71,548 | 68,311 |
| **Liabilities** | | |
| Current liabilities | 10,011 | 18,204 |
| Total liabilities | 10,011 | 18,204 |
| **Shareholders' equity** | | |
| Contributed equity | 53,578 | 44,783 |
| Reserves | 7,254 | 4,910 |
| Retained earnings | 705 | 414 |
| | 61,537 | 50,107 |
| **Profit for the year** | 67,375 | 33,278 |
| **Total comprehensive income** | 67,375 | 33,278 |

## 37. RELATED PARTY TRANSACTIONS

### (a) Parent entity

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 33.

### (c) Key management personnel

Disclosures relating to key management personnel are set out in note 7.

### (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.

## 38. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 3 August 2010 the Group repaid $35,000,000 of term debt classified as current at 30 June 2010 (note 19). This debt was repaid out of surplus cash on hand.

There have been no other matters or circumstances occurring subsequent to the end of the financial year, that has 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.

## 39. NOTES TO THE CASH FLOW STATEMENT

### (a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

| | Consolidated | |
|---|---|---|
| | *2010 $'000* | *2009 $'000* |
| Cash and cash equivalents | 51,735 | 35,790 |
| Bank overdrafts | – | – |
| Balance per statement of cash flows | 51,735 | 35,790 |

### (b) Reconciliation of net cash inflow (outflow) from operating activities to profit (loss)

| | Consolidated | |
|---|---|---|
| | *2010 $'000* | *2009 $'000* |
| Profit for the year | 118,652 | 94,438 |
| Depreciation and amortisation | 23,277 | 18,749 |
| Non-cash employee benefits expense - share-based payments | 4,301 | 2,999 |
| Net loss on sale of non-current assets | 2,313 | 2,063 |
| Fair value adjustment to derivatives | 1,535 | 307 |
| Changes in net assets and liabilities, net of effects from acquisition of businesses: | | |
| Decrease (increase) in inventories | (9,969) | (52,454) |
| Decrease (increase) in current receivables | (3,431) | (6,966) |
| Decrease (increase) in other current assets | 1,137 | 142 |
| (Decrease) increase in current payables | 15,674 | 67,540 |
| (Decrease) increase in current provisions | (2,283) | 10,716 |
| (Decrease) increase in other current liabilities | (687) | 2,152 |
| (Decrease) increase in non-current provisions | 592 | 2,193 |
| (Decrease) increase in other non-current liabilities | 3,123 | 4,576 |
| (Decrease) increase in current tax liability | (8,193) | 6,031 |
| (Decrease) increase in deferred tax balances | 6,062 | (6,909) |
| Net cash inflow (outflow) from operating activities | 152,103 | 145,577 |

## 40. 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. Compliance with policies and exposure limits is reviewed by the Audit and Risk Management Committee on a continuous basis.

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

### 40. FINANCIAL RISK MANAGEMENT (cont.)

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

| | Consolidated | |
|---|---|---|
| | *2010 $'000* | *2009 $'000* |
| **Financial assets** | | |
| Cash and cash equivalents | 51,735 | 35,790 |
| Trade and other receivables | 63,499 | 60,269 |
| | 115,234 | 96,059 |
| **Financial liabilities** | | |
| Trade and other payables | 271,539 | 260,804 |
| Bank loans | 69,624 | 89,358 |
| Interest rate swaps (net settled) | 763 | 2,142 |
| | 341,926 | 352,304 |

#### (a) Market risk

*(i) Foreign currency risk management*

The majority of the Group's operations are denominated in the functional currency of the country of operation and are therefore not exposed to foreign currency risk. That is, transactions and balances related to the Australian operations are denominated in Australian dollars and transactions and balances related to the New Zealand operations are denominated in New Zealand dollars.

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

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

*Interest rate swap contracts*

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

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

| | **30 June 2010** | | 30 June 2009 | |
|---|---|---|---|---|
| | *Weighted average interest rate* | *Balance* | *Weighted average interest rate* | *Balance* |
| **Consolidated** | *%* | *$'000* | *%* | *$'000* |
| Bank loans | 7.31% | 70,000 | 6.77% | 90,000 |
| Interest rate swaps (notional principal amount) | 7.31% | (70,000) | 7.31% | (70,000) |
| Net exposure to cash flow interest rate risk | | – | | 20,000 |

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

## 40. FINANCIAL RISK MANAGEMENT (cont.)

*(iii) Summarised sensitivity analysis*

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

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

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

| **Consolidated** | | **Interest rate risk** | | | |
|---|---|---|---|---|---|
| | | *-50bps* | | *+50bps* | |
| **30 June 2010** | *Carrying amount $'000* | *Profit $'000* | *Equity $'000* | *Profit $'000* | *Equity $'000* |
| **Financial liabilities** | | | | | |
| Interest rate swaps | 763 | (245) | (588) | 245 | 588 |
| Borrowings | 69,624 | 245 | – | (245) | – |
| **Total increase/ (decrease)** | | – | (588) | – | 588 |

| **Consolidated** | | **Interest rate risk** | | | |
|---|---|---|---|---|---|
| | | *-50bps* | | *+50bps* | |
| **30 June 2009** | *Carrying amount $'000* | *Profit $'000* | *Equity $'000* | *Profit $'000* | *Equity $'000* |
| **Financial liabilities** | | | | | |
| Interest rate swaps | 2,142 | (245) | (572) | 245 | 572 |
| Borrowings | 89,358 | 315 | – | (315) | – |
| **Total increase/ (decrease)** | | 70 | (572) | (70) | 572 |

### (b) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of 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 by continuously monitoring forecast and actual cash flows.

*Financing arrangements*

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

| | **Consolidated** | |
|---|---|---|
| | *2010 $'000* | *2009 $'000* |
| Secured bank overdraft facility: | | |
| amount used | – | – |
| amount unused | 63,125 | 63,046 |
| | 63,125 | 63,046 |
| Secured indemnity guarantees: | | |
| amount used | 1,710 | 1,768 |
| amount unused | 211 | 143 |
| | 1,921 | 1,911 |
| Secured bank loan facilities (senior debt): | | |
| amount used [(i)] | 70,000 | 90,000 |
| amount unused | 75,000 | 55,000 |
| | 145,000 | 145,000 |

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

### 40. FINANCIAL RISK MANAGEMENT (cont.)

#### (b) Liquidity risk (cont.)

*Maturities of financial assets and financial liabilities*

The following tables detail the Group's remaining contractual maturity for its financial assets and 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 assets and liabilities without fixed amount or timing are based on the conditions existing at the reporting date.

| 2010 | *Less than 6 months $'000* | *6 - 12 months $'000* | *Between 1 and 2 years $'000* | *Between 2 and 5 years $'000* | *Over 5 years $'000* | *Total $'000* | *Weighted average effective interest rate %* |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 51,735 | – | – | – | – | 51,735 | 3.28% |
| Trade and other receivables | 63,499 | – | – | – | – | 63,499 | – |
| | 115,234 | – | – | – | – | 115,234 | |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | 271,539 | – | – | – | – | 271,539 | – |
| Bank loans | 36,303 | 1,117 | 36,024 | – | – | 73,444 | 7.31% |
| Interest rate swaps (net settled) | 514 | 201 | 61 | – | – | 776 | – |
| | 308,356 | 1,318 | 36,085 | – | – | 345,759 | |

| 2009 | *Less than 6 months $'000* | *6 - 12 months $'000* | *Between 1 and 2 years $'000* | *Between 2 and 5 years $'000* | *Over 5 years $'000* | *Total $'000* | *Weighted average effective interest rate %* |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 35,790 | – | – | – | – | 35,790 | 2.60% |
| Trade and other receivables | 60,269 | – | – | – | – | 60,269 | – |
| Interest rate swaps (net settled) | – | – | – | 44 | – | 44 | – |
| | 96,059 | – | – | 44 | – | 96,103 | |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | 260,804 | – | – | – | – | 260,804 | – |
| Bank loans | 2,167 | 2,167 | 4,335 | 91,987 | – | 100,656 | 6.77% |
| Interest rate swaps (net settled) | 863 | 744 | 673 | – | – | 2,280 | – |
| | 263,834 | 2,911 | 5,008 | 91,987 | – | 363,740 | |

## 40. FINANCIAL RISK MANAGEMENT (cont.)

### (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 adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. 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. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Audit and Risk Management Committee annually.

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 liabilities or financial assets carried at fair value are the interest rate swaps. The directors consider the interest rate swaps 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 fair value's have been calculated and supported by third party valuations.

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

## 41. DIRECTORY

**Registered office / principal place of business**

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

# ADDITIONAL STOCK EXCHANGE INFORMATION
as at 31 July 2010

The shareholder information set out below was applicable as at 31 July 2010.

## A. Distribution of equity securities

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

| Holding | | | Ordinary shares Total Holders | Units | % Issued Capital |
|---|---|---|---|---|---|
| 1 | - | 1000 | 15,342 | 6,206,616 | 5.73 |
| 1,001 | - | 5,000 | 4,576 | 9,976,985 | 9.21 |
| 5,001 | - | 10,000 | 400 | 2,929,265 | 2.70 |
| 10,001 | - | 100,000 | 221 | 5,971,324 | 5.51 |
| 100,001 | and over | | 32 | 83,260,797 | 76.85 |
| | | | 20,571 | 108,344,987 | 100.00 |

There were 293 holders of less than a marketable parcel of ordinary shares.

## B. Equity security holders

*Twenty largest quoted equity security holders*

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

| Name | Ordinary shares *Number held* | *% of issued shares* |
|---|---|---|
| 1. NATIONAL NOMINEES LIMITED | 18,641,825 | 17.21 |
| 2. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 18,286,907 | 16.88 |
| 3. J P MORGAN NOMINEES AUSTRALIA LIMITED | 17,836,271 | 16.46 |
| 4. CITICORP NOMINEES PTY LTD | 5,694,715 | 5.26 |
| 5. COGENT NOMINEES PTY LIMITED | 5,245,107 | 4.84 |
| 6. ANZ NOMINEES LIMITED <CASH INCOME A/C> | 3,116,121 | 2.88 |
| 7. MR TERRY SMART | 1,500,000 | 1.38 |
| 8. AUSTRALIAN REWARD INVESTMENT ALLIANCE | 1,424,654 | 1.31 |
| 9. RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PIPOOLED A/C> | 1,290,352 | 1.19 |
| 10. RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <GSAM A/C> | 1,168,132 | 1.08 |
| 11. UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD | 1,049,101 | 0.97 |
| 12. SHAWVILLE PTY LTD | 1,000,000 | 0.92 |
| 13. AMP LIFE LIMITED | 906,438 | 0.84 |
| 14. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2 | 791,518 | 0.73 |
| 15. QUEENSLAND INVESTMENT CORPORATION | 724,548 | 0.67 |
| 16. INVIA CUSTODIAN PTY LIMITED <GSJBW MANAGED A/C> | 684,171 | 0.63 |
| 17. MR RICHARD UECHTRITZ | 500,000 | 0.46 |
| 18. UBS NOMINEES PTY LTD | 470,296 | 0.43 |
| 19. JADESIDE PTY LTD <RJ BOURIS FAMILY A/C> | 410,000 | 0.38 |
| 20. CITICORP NOMINEES PTY LTD <CWLTH BANK OFF SUPER A/C> | 397,259 | 0.37 |
| | 81,137,415 | 74.89 |

## C. Substantial holders

Substantial holders in the company are set out below:

| *Ordinary shares* | *Number held* | *Voting Power %* |
|---|---|---|
| Integrity Investment Management | 6,646,269 | 6.13 |
| National Australia Bank Limited | 6,459,696 | 5.96 |
| FMR LLC and FIL Limited | 5,654,507 | 5.22 |
| Concord Capital | 5,473,520 | 5.05 |

# CORPORATE INFORMATION
# ABN 80 093 220 136

## COMPANY SECRETARY

Richard Murray

## SHARE REGISTRY

Computershare Investor Services Pty Limited
Yarra Falls 452 Johnston Street, Abbotsford, Victoria, 3067, Australia
1300 302 417 (Australia)
+61 3 9615 5970

## REGISTERED & PRINCIPAL ADMINISTRATION OFFICE

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

## STORE LOCATIONS [i]

### Australia

**VIC**
Ballarat
Bendigo
Brighton
Broadmeadows
Camberwell
Chadstone
Cranbourne
Dandenong
Doncaster
Epping
Epping Plaza
Essendon
Frankston
Frankston (CA)
Geelong
Heidelberg
Highpoint
Keilor
Knox
Malvern
Maribyrnong
Melb City (Bourke Street)
Melb City (Elizabeth Street, Lonsdale Street, Elizabeth Street
Cameras & Elizabeth Street Computers)
Narre Warren
Nunawading
Plenty Valley
Prahran
Preston
Preston - Northland
Ringwood
Shepparton
South Wharf
Southland
Watergardens
Werribee

**ACT**
Belconnen
Canberra City
Fyshwick
Fyshwick (CA)
Woden

**NSW**
Albury
Artarmon
Belrose
Blacktown
Bondi
Castle Hill
Castle Hill (CA)
Chatswood
Eastgardens
Erina
Glendale
Hornsby
Kotara
Leichhardt
Liverpool
Macarthur Square
Macquarie
Miranda
Moore Park
Mt Druitt
Newcastle
Parramatta
Parramatta Centre
Penrith
Rouse Hill
Strand Arcade
Sydney City (x2)
Top Ryde
Tweed City
Tweed Heads (CA)
Tuggerah
Wagga Wagga
Warringah Mall
Warrawong
Wollongong

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

**TAS**
Hobart

**QLD**
Brisbane City (x3)
Browns Plains
Bundall – Gold Coast
Cairns
Capalaba
Capalaba (CA)
Carindale
Carseldine (CA)
Chermside
Helensvale (CA)
Indooroopilly
Ipswich
Kawana
Kedron
Kedron (CA)
Labrador (CA)
Loganholme
Macgregor
Mermaid Waters (CA)
Morayfield
Mt Gravatt (CA)
Mt Ommaney
Pacific Fair
Robina – Gold Coast
Rockhampton
Strathpine
Toowoomba
Townsville
Townsville Willows

**WA**
Cannington
Carousel
Claremont
Cockburn
Joondalup
Malaga
Midland Central
Myaree
Osborne Park
Perth City (x3)
Rockingham
Whitford

**NT**
Casuarina

### New Zealand
Albany
Auckland (Queens St)
Botany
Hamilton
Manukau
New Lynn
Palmerston North
St Lukes
Wellington
Westgate

(i) JB Hi-Fi unless otherwise stated (current as at 30 June 2010).

jbhifi.com.au