ANNUAL REPORT

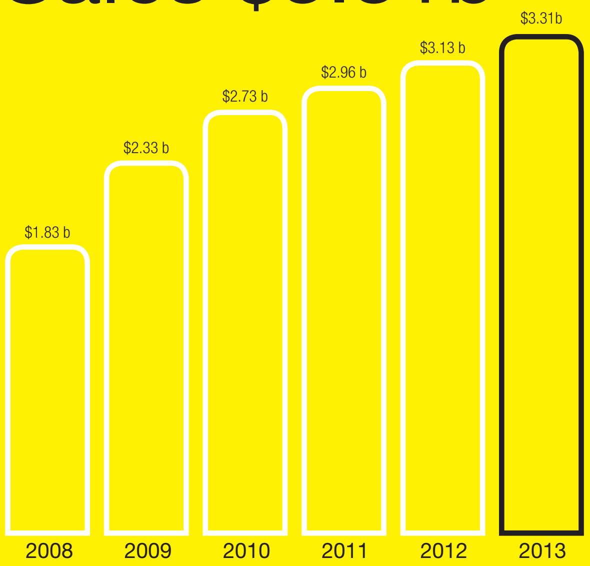
2013

Financial Summary

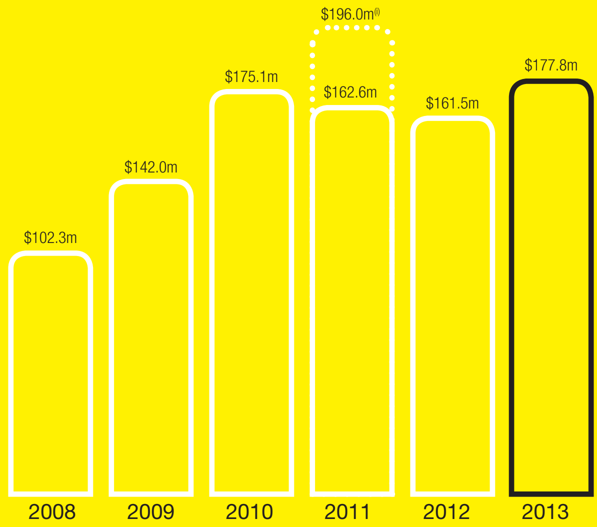
FINANCIAL PERFORMANCE

	2009 Statutory	2010 Statutory	2011 Normalised(i)	2011 Statutory	2012 Statutory	2013 Statutory	Growth
Sales	$2.33b	$2.73b	$2.96b	$2.96b	$3.13b	$3.31b	5.8%
EBIT	$142.0m	$175.1m	$196.0m	$162.6m	$161.5m	$177.8m	10.1%
NPAT(ii)	$94.4m	$118.7m	$134.4m	$109.7m	$104.6m	$116.4m	11.2%
Earnings per share	88.3 cps	109.7 cps	124.7 cps	101.8 cps	105.9 cps	117.7cps	11.1%
Total dividend - fully franked	44.0 cps	66.0 cps	77.0 cps	77.0 cps	65.0 cps	72.0cps	10.8%

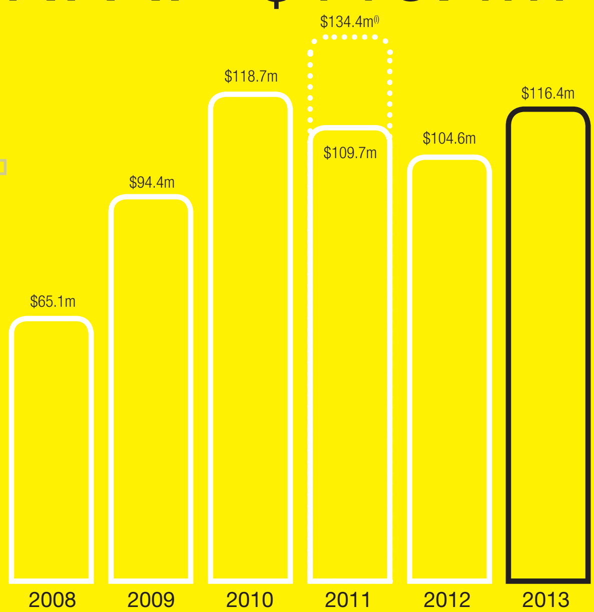
Sales $3.31b



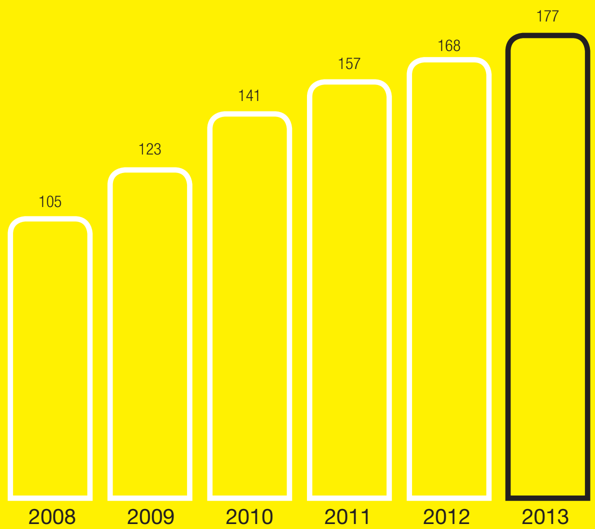
EBIT $177.8m



NPAT(ii) $116.4m



Stores



(i) Excludes the Clive Anthonys restructuring charge ($24.7m post tax) announced in March 2011
(ii) Profit attributable to the owners of JB Hi-Fi Limited, excludes non-controlling interests

Chairman's and Chief Executive Officer's Report

Dear fellow shareholder,

We are pleased to report that JB Hi-Fi Limited has delivered a solid result for the year ended 30 June 2013. Sales, profits and dividends were all up on the prior year. This result was driven by a combination of sales growth, improved gross margins and our low cost of doing business, and underpinned by our ongoing focus on customer service.

Overview

JB Hi-Fi Limited achieved sales of $3.31 billion in FY13, with total sales growth of 5.8% and comparable sales growth of -0.6%. We were pleased to see positive sales momentum maintained throughout the second half of FY13, with positive comparable sales of 3.2% and total sales growth of 10.3%.

Gross margin improved 43 bps to 21.5% (FY12: 21.1%). In Australia, the market remained very competitive however we did not experience the level of unsustainable discounting seen in the second half of FY12. In New Zealand, our improved buying terms were reinvested in maintaining price leadership.

At 15.1%, our low cost of doing business continues to be a competitive advantage and remains lower than our major listed competitors. Store wages, adjusted for the Fair Work Australia award increase on 1 July 2012, remained flat as a percentage of sales, demonstrating our ability to actively manage wages in line with the market, while remaining focused on customer service.

The balance sheet continues to grow in strength with relatively low financial and operating leverage, evidenced by solid fixed charges cover of 3.2 times, gearing of 0.6 and interest cover of 17.5 times.

In December 2012 we commenced a trial of our "HOME" store concept with the initial conversion of four existing stores to JB HI-FI HOME, followed by a further four conversions by the end of FY13. Sales results during the trial period were positive, with strong customer engagement and no negative impact on existing JB Hi-Fi categories. We are excited about the opportunity that the circa $4.6 billion home appliance market presents.

The trial stores demonstrated how JB Hi-Fi can integrate the home appliance categories within its existing model while maintaining the unique JB Hi-Fi brand personality. We anticipate converting 10 additional existing stores in FY14 and see the potential for a total of approximately 50 HOME stores over the next three years. The long term opportunity is still to be fully quantified, as this will be dependent on space available in existing stores and the suitability of new store locations.

JB Hi-Fi has a number of key competitive advantages including a unique brand personality, a low cost operating model, highly productive floor space, great people and the ability to adapt its model and innovate to ensure it remains current and relevant to its customers.

JB Hi-Fi is, and has always been, a discount retailer supported by a low cost model which enables it to offer one of Australia and New Zealand's best value home entertainment and consumer electrical product ranges.

Our high energy, engaging and entertaining retail format ensures that the stores are desired destinations for the customer. In addition, locating stores in high foot traffic precincts has allowed us to both provide convenient access for our customers and to maximise impulse traffic. JB Hi-Fi stores have relatively high sales per square metre when compared to many local competitors and comparable international businesses.

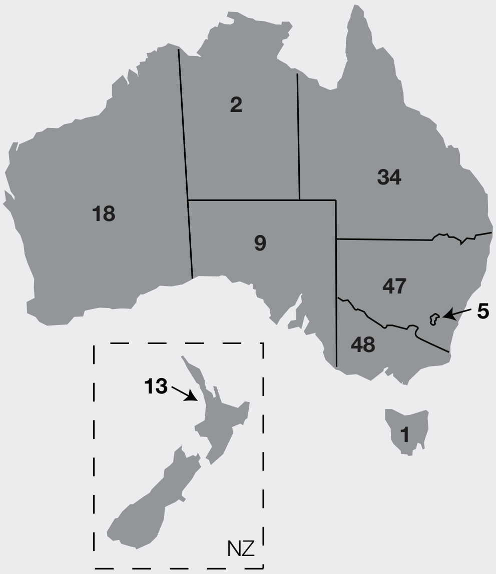
As always, our motivated, passionate and knowledgeable staff members continue to be one of our most important assets. A busy and enjoyable working environment means that JB Hi-Fi continues to attract and retain high calibre staff.

Stores

There were 176 JB Hi-Fi stores (Australia: 163, NZ: 13) open as at 30 June 2013. During FY13, 13 new JB Hi-Fi stores, all in Australia, were opened and three were closed. We expect to open 12 new JB Hi-Fi stores in FY14 and maintain our stated target of 214 JB Hi-Fi stores. Eight existing stores were converted to the new JB HI-FI HOME brand in FY13.

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

Total Stores: 177*
(JB Aust: 163, CA: 1, JB NZ: 13)



* As at 30 June 2013

Out of Store

JB Hi-Fi continues to leverage the benefits of its bricks and mortar locations combined with a strong online presence. It is intended that a new JB Hi-Fi website will be launched in the first half of FY14, which will enhance the customer experience through improved search functionality and richer product information.

Online sales grew 29.8% in FY13. The popularity of JB Hi-Fi's websites also continues to grow with unique visitors increasing 24.1% over the previous year to an average of 1.15 million per week.

JB HI-FI NOW, our digital content delivery platform, allows JB Hi-Fi to stay relevant and engaged with consumers' present and future content consumption behaviour. During FY13, our digital offer was expanded from Music streaming to include eBooks and Video redemption.

Our commercial business, while off a relatively small base, grew strongly and was up 68.7% on the prior year. In February we acquired 51% of Network Neighborhood (a corporate education and IT services provider) and in March 2013 we launched our B2B Telco offer.

Board, Corporate Governance and Management Approach

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

JB Hi-Fi promotes environmental sustainability and is committed to reducing the impact that its business has on the Australian and New Zealand environment.

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

Our willingness to innovate has seen JB Hi-Fi:

- branch out from destination stores into shopping centres;
- expand beyond its heritage in Victoria to become a national operator;
- change its product mix to be a market leader in new and emerging technologies;
- refine its online capabilities and develop a digital offering; and
- more recently to expand into the home appliance market via its new HOME stores.

JB Hi-Fi has a proud history of delivering on innovation and will continue to invest in people and technology to remain a leader in its sector.

JB Hi-Fi's workplace giving program, established in 2008 and known as Helping Hands, enables JB Hi-Fi directors, executives and employees to donate to registered charitable organisations. JB Hi-Fi matches dollar for dollar regular employee contributions through its payroll system, effectively doubling the financial benefit to our community partners. Workplace giving programs have proved to be a very effective way for employers and employees to join together to support the community. Through the combined giving of JB Hi-Fi and its employees, we believe we make a real difference to the charities in the program. This year combined contributions exceeded $1.2 million and since its inception, JB Hi-Fi and its employees are proud to have raised more than $4.2 million.

The Helping Hands program has driven the placement of "Change for Change" boxes in all stores across Australia from September 2010 and in New Zealand since May 2012. All donations collected are shared evenly amongst the JB Hi-Fi's charity partners. This year over $94,000 has been collected, and since inception the program has raised over $300,000, showing the generosity of customers and employees.

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

Dividends

The Board has declared that JB Hi-Fi will pay a final dividend of 22.0 cents per share fully franked on 6 September 2013. This will bring total dividends for the year ended 30 June 2013 to 72.0 cents per share fully franked, up 10.8% over the prior year. The payout ratio has been maintained at circa 60% to enable us to continue to grow through investments in both the new store rollout program, including an expansion of the JB HI-FI HOME footprint, and our digital and online strategies.

Outlook

We see good growth opportunities ahead with a strong line up of new products planned for the first half of FY14, growth from our new store roll out program and Commercial business, and the expansion of the home appliance categories.

New stores continue to perform well as our focus on high foot traffic locations ensures maximum exposure and convenience for customers. JB Hi-Fi continues to evolve and innovate, ensuring it not only remains relevant to its existing customers but also gains new sales opportunities for both now and the future. Our recent entry into the home appliance market has shown early success, with these new categories integrating seamlessly into its existing model and maintaining the unique JB Hi-Fi brand personality.

In FY14 we expect:

- to open 12 new JB Hi-Fi stores, with four opening in the first half;
- to convert 10 existing stores to the "HOME" concept, with one of these stores already converted in July 2013; and
- total sales to increase by between 6% and 8% on the prior year.

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

We look forward to another successful year in FY14.

Greg Richards
Chairman

Terry Smart
Chief Executive Officer

Melbourne,
30 August 2013

Annual Report

for the financial year ended **30 June 2013**

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. The Board continually reviews and monitors developments in corporate governance which are relevant to the Group (being the consolidated entity, consisting of the Company and the entities it controls).

GOVERNANCE STATEMENT

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

The Board believes that JB Hi-Fi's policies and practices comply in all material respects with the ASX Corporate Governance Council Principles and Recommendations (the "ASX Recommendations"). The Board believes that it has been compliant with the spirit of the principles contained in the ASX Recommendations during the 2013 financial year.

In view of the size of the Board, the Board has determined not to establish a Nominations Committee. The Board has retained this responsibility. Further detail is set out in the section of this Governance Statement entitled "Nominations Committee".

THE BOARD

Role

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

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

Composition / Selection and appointment of directors

The Board seeks to ensure that the combination of its members provides an appropriate range of experience, skills, diversity, knowledge and perspective to enable it to carry out its obligations and responsibilities. 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 believes that having a range of different skills, backgrounds, experience and gender ensures a diversity of viewpoints which facilitate effective governance and decision making. The Board considers that its current composition, together with that of its committees, enable it and those committees to add value to the Company and to operate effectively. The Board regularly reviews its composition.

JB Hi-Fi maintains a majority of non-executive directors on its Board. The Board currently comprises seven directors, comprising five non-executive directors, including the Chairman, and two executive directors (being the Chief Executive Officer and the Chief Financial Officer). 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 via the "Corporate" and "Governance" sections.

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.

Independence

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

JB Hi-Fi considers that each of the directors is independent with the exception of:

- Terry Smart: the Chief Executive Officer;
- Richard Murray: the Chief Financial Officer; and
- Richard Uechtritz: Richard was the Chief Executive Officer of the Company until May 2010. Richard is also a consultant to 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.

Board meetings

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

Access to information and independent advice

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

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.

BOARD COMMITTEES

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

Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee.

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

(a) oversight of the reliability and integrity of the Company's financial management, financial reporting and disclosure, and related non-financial reporting and disclosure practices;

(b) oversight of the independence, performance, appointment and removal of the external auditor; and

(c) review of the Company's policies on risk oversight and management, and in discharging its responsibility to satisfy itself that a sound system of risk management and internal control has been implemented to manage the material risks affecting the Company's business, including compliance with all applicable laws.

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

During the 2013 financial year, the Audit and Risk Management Committee comprised the following non-executive directors all of whom were independent with relevant financial, commercial and risk management experience, including an independent chairman who is not the chairman of the Board:

- Beth Laughton: Ongoing member and Chairman of Committee;
- James King: Ongoing member of Committee; and
- Gary Levin: Ongoing member of Committee.

Details of the background and experience 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 2013 financial year are listed in the Directors' Report. Directors who are not members of the Audit and Risk Management Committee may attend any Audit and Risk Management Committee meeting.

Remuneration Committee

The Board has established a Remuneration Committee.

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

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

During the year ended 30 June 2013, the Remuneration Committee comprised the following directors:

- Greg Richards: Ongoing member and Chairman of Committee;
- Gary Levin: Ongoing member of Committee; and
- James King: Ongoing member of Committee.

The Remuneration Committee meets as required. Details of the meetings held and members' attendance during the 2013 financial year are listed in the Directors' Report. Directors who are not members of the Remuneration Committee may attend a Remuneration Committee meeting at the invitation of the Chairman when considered appropriate.

Nominations Committee

In view of its size, the Board has decided not to establish a Nominations Committee. The Board itself is responsible for the selection and appointment practices of the Company.

The Board is charged with, in part, selecting, appointing and regularly evaluating the performance of, and planning 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 and the performance of 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 via the "Corporate" and "Governance" sections.

CODE OF CONDUCT

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

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

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

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

DIVERSITY

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

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

Gender diversity

As at 30 June 2013 the proportion of women engaged by JB Hi-Fi was as follows:

- Board: 14% being 1 of 7 directors (2012: 14%)
- Senior management/executive (excluding executive directors): 5% being 1 of 20 employees (2012: 9.5%)
- Group: 40% being 2,798 of 6,941 employees (2012: 40%)

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

Objective set in March 2012	*June 2013*	*June 2012*
To improve the percentage of female to male commissioned sales staff over each of the next 3 years	43%	41%
To improve the percentage of female to male store managers over the next 3 years	11%	11%
To improve the percentage of female to male regional managers over the next 3 years	0%	0%
To increase the percentage of female senior managers over the next 3 years	5%	9.5%

The Board has established action plans for achieving the objectives set out above and identified and designated responsibility for each objective to executives and key stakeholders. One of the challenges faced by the Group in terms of diversity is the relatively low level of turnover in positions such as regional and senior management roles. The vast majority of these positions are occupied by long serving male employees of the Group, which is why the Board believes 3 year targets are realistic in terms of achieving the desired improvements.

The Board considers progress towards achieving these long term objectives is on track and in line with the targets identified for the 3 year time periods. Actions taken to date include:

- development of systems to enable regular reporting and assessment of progress towards the adopted gender diversity objectives;
- a detailed review of employee pay to consider whether any gender based disparity exists. Based upon the results of this review the Company is satisfied that there is no disparity in pay between male and female staff;
- further development of part time and flexible work practices, with specific focus on return to work from maternity leave;

- appointment of females into roles traditionally filled by male staff, such as car sound sales, hi-fi sales, inventory planners, buyers, and IT;
- a reorganisation of the managerial structure within stores to achieve future strategic operational goals which JB Hi-Fi believes will also, in time, result in an increase in the number of female store managers and ultimately regional managers; and
- ensuring that female participation in leadership development programs is at least equivalent to the proportion of female employees at that level in the organisation.

SHAREHOLDINGS OF DIRECTORS AND EMPLOYEES

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

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

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

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.

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

(a) the financial records of the consolidated entity (consisting of the Company and the entities it controlled for the financial year ended 30 June 2013) for the financial year have been properly maintained in accordance with section 286 of the Corporations Act;

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

(c) the statements in (a) and (b) above are founded on a sound system of risk management and internal control which is operating effectively in all material respects in relation to financial reporting risks.

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 external audit firm was most recently appointed in 2002. The audit engagement partner is rotated every five years.

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

CONTINUOUS DISCLOSURE

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

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

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

SHAREHOLDER COMMUNICATIONS

The Company's website www.jbhifi.com.au ("Corporate" section) currently carries the following information for shareholders:

- all market announcements and related information which are posted immediately after release to the ASX;
- details relating to the Company's directors and executives; and
- Board and Board Committee charters and other corporate governance documents.

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

The Company requests that the external auditor attends its Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

RISK IDENTIFICATION AND MANAGEMENT

The 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. 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.

Risk identification and management is a key focus of the executive and management teams but in order to ensure there is a systematic process and regular review, the Company also has a dedicated risk management team. Management has designed and implemented a risk management and internal control system to manage the Company's material risks. Management has reported to the Board that:

- the risk management and internal control systems designed to manage the material business risks of the consolidated entity (consisting of the Company and the entities it controlled for the financial year ended 30 June 2013) are operating effectively in all material respects based on the risk management framework adopted by the consolidated entity; and
- subsequent to 30 June 2013, no changes or other matters have arisen that would have a material effect on the operation of the risk management and internal control systems of the consolidated entity.

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

BOARD AND EXECUTIVE PERFORMANCE

JB Hi-Fi monitors and evaluates the performance of its Board, its Board Committees, individual directors, and executives in order to fairly review and actively encourage enhanced Board and management effectiveness. A description of the process for the evaluation of the Board, its Committees, individual directors and executives can be found on the Company's website at www.jbhifi.com.au via the "Corporate" and "Governance" sections. Evaluation of the Board, Board Committees, individual directors and executives has been conducted in respect of the 2013 financial year in accordance with this process.

DIRECTORS' FEES AND EXECUTIVE REMUNERATION

Directors' fees

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

Executive remuneration

The 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 executives is evaluated against comparative positions in similar companies and comprises: (a) fixed remuneration; and (b) variable remuneration consisting of: (i) short-term incentives (annual bonus based on specified individual and Group performance targets and qualitative measures as agreed with the executive); and (ii) long-term incentives (options under the Company's share option plans).

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

The Group's share option plans, including the details of performance hurdles for share options granted to executives, are summarised in the Remuneration Report.

ENVIRONMENTAL STATEMENT

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

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

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

Carbon Disclosure Project

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

Smarter Choice Program

Since January 2012, JB Hi-Fi has participated in the Smarter Choice program in conjunction with the Victorian State Government. This program is designed to educate our employees on how to best advise customers about the energy efficiency of televisions. This has been positively supported by Company employees with associated targets being exceeded.

Australian Packaging Covenant

JB Hi-Fi is a signatory to the Australian Packaging Covenant. This is a voluntary program involving both Government and industry to ensure the environmental impact from packaging is reduced, measured and understood. JB Hi-Fi is committed to the principles of the Australian Packaging Covenant and in 2011 submitted a five year action plan designed to reduce the impact of packaging on the environment. Since joining the Australian Packaging Covenant in 2007, JB Hi-Fi has received positive assessments on all annual achievement targets.

Mobile Muster

Mobile Muster is an initiative of the Australian Mobile Telecommunications Association introduced to facilitate mobile phone recycling. JB Hi-Fi has implemented this voluntary initiative in all stores since 2010 where consumers can take postage-paid envelopes to return used mobile phones as they update to new models.

Cartridges 4 Planet Ark

JB Hi-Fi launched Cartridges 4 Planet Ark in stores in 2010. This program enables consumers to drop used printer cartridges at JB Hi-Fi stores, where they are collected and returned for recycling and remanufacturing, ensuring landfill is avoided.

Product Efficiency

Minimum Energy Performance Standards require retailers to ensure that products for sale in Australia and New Zealand have energy efficiency labels. JB Hi-Fi and its suppliers have worked together to meet these standards and ensure products have the labelling required to assist customers to make decisions about energy efficiency.

Store recycling initiatives

JB Hi-Fi stores are equipped to recycle waste where possible. All stores have paper and cardboard recycling bins. Used printer toner cartridges are recycled.

E-Waste

The Product Stewardship (Televisions and Computers) Regulations 2011 came into effect in November 2011. This regulation ensures that there is a nationally consistent approach towards the collection and recycling of end of life televisions and computers. JB Hi-Fi supports the scheme and will provide customers and employees with communication on recycling options at the appropriate time.

Support Office

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

SOCIAL STATEMENT

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

JB Hi-Fi’s Workplace Giving Program – “Helping Hands”

Established in 2008, Helping Hands is JB Hi-Fi’s workplace giving program. Through this program, JB Hi-Fi directors, executives and employees are able to donate to registered charitable organisations. JB Hi-Fi matches dollar for dollar regular employee contributions through its payroll system, effectively doubling the financial benefit to our community partners. Workplace giving programs have proved 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) in Australia and the Payroll Giving Foundation in New Zealand to develop and maintain the program and in doing so contributes to the Company’s vision of seeing significant social impact through employers and community organisations working together. Through the combined giving of the Company and its employees, JB Hi-Fi believes it makes a real difference to the charities in the program.

Helping Hands – Australia

Since inception, program participation has grown to over 2,430 employees or approximately 37% of total JB Hi-Fi Australia staff, each making weekly contributions. This year combined contributions exceeded $1,150,000 and since its inception, the Company and its employees are proud to have raised more than $4,150,000.

The 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, Oxfam and the Australian Animal Welfare League.

Helping Hands – New Zealand

The Helping Hands program was launched in New Zealand in May 2012. The Company’s charity partners in New Zealand are ShelterBox, Kenzies Gift, Forest and Bird, Youthline and Plunket. Participation after only 14 months has exceeded expectations, already achieving participation of over 20% of total JB Hi-Fi New Zealand staff and contributions exceeding $45,000.

Australian Charities Fund Award

JB Hi-Fi was awarded the Organisational Engagement Award by the Australian Charities Fund in 2012. This award recognises excellence in engagement strategies across all levels of an organisation with regard to workplace giving.

“Change for Change” – Donation Boxes in our Stores

The Helping Hands program has driven the placement of “Change for Change” boxes in all stores across Australia from September 2010 and in New Zealand since May 2012. These boxes have been placed at point of sale locations to encourage donations from our customers. All donations collected are shared evenly amongst the Company’s charity partners. This year over $94,000 has been collected, and since inception the program has raised over $300,000, showing the generosity of customers and employees.

“Employer Leadership Initiative” – Founding Partner

Part of JB Hi-Fi’s commitment to growing workplace giving in Australia and New Zealand is the Company’s belief that it is one of the most cost effective and efficient ways for community organisations to grow sustainable revenue.

In Australia, the Company is a founding partner of the ACF’s “Employer Leadership Initiative” (ELI) that was launched in October 2010. ELI is a group of ten major Australian organisations that have a shared commitment to creating greater levels of social impact through ‘engaged employee giving’. Members of the ELI 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 seeks to play its part in encouraging a sustainable, diverse and robust not-for-profit sector.

To further support the growth of workplace giving in New Zealand, JB Hi-Fi is working with the Payroll Giving Foundation to communicate the benefits of implementing such a program and grow workplace giving in New Zealand. This initiative has been communicated through local media and engaging with other corporate entities.

DIRECTORS' REPORT

The directors of JB Hi-Fi Limited ("the Company") submit herewith the annual financial report of the consolidated entity consisting of the Company and the entities it controlled ("the Group") for the financial year ended 30 June 2013. In order to comply with the provisions of the Corporations Act 2001, the Directors' Report as follows:

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

Name	*Particulars*
Mr Greg Richards Chairman Non-Executive Director B.Ec (Hons)	Greg was appointed to the Board in December 2007 and was appointed Chairman of the Board in June 2012. Greg is a member and Chairman of the Remuneration Committee and was Chairman of the Audit and Risk Management Committee from February 2010 until May 2012. Prior to joining the Board, Greg had over 25 years experience in the investment banking industry. Most recently he was with Goldman Sachs JBWere for over 19 years where he was an equity partner for 17 years, working primarily in equity capital markets. Greg is also currently a consultant to Onsite Rental Group and involved in a voluntary capacity with several not-for-profit entities.
Mr James King Non-Executive Director B.Comm, FAICD	James has over 30 years board and management experience with 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. James is also past Chairman of Juvenile Diabetes Research Foundation (Victoria) and on the Council of Xavier College. James is a Fellow of the Australian Institute of Company Directors. James was appointed to the Board in October 2003 and was Chairman from March 2006 until September 2007. James is a member of the Audit and Risk Management Committee and the Remuneration Committee.
Ms Beth Laughton Non-Executive Director B.Ec, FAICD, FCA	After qualifying as a Chartered Accountant, Beth spent over 25 years in corporate finance, providing mergers and acquisition advice and arranging equity funding. For 12 years her primary focus was on information technology, telecommunications, business process outsourcing, and speciality retail, including online retailing. She is also a non-executive director and member of the Audit Committee of the ASX listed Australand Property Group companies, Chair of the Audit & Risk Management Committee and non-executive director of CRC Care Pty Ltd and a member of the Defence SA Advisory Board and its Audit & Risk Management Committee. She was a non-executive director and Chairman of the Audit Committee of Sydney Ferries from 2004 to 2010. Beth was appointed to the Board in May 2011 and is Chairman of the Audit and Risk Management Committee.
Mr Gary Levin Non-Executive Director B.Comm, LLB	Gary has over 25 years experience on the boards of public and private companies in the retail, investment and renewable energy fields in both executive and non-executive roles. He is currently on the board of a number of private investment companies. Gary holds a Bachelor of Commerce and Bachelor of Laws from the University of New South Wales and is a member of the New South Wales Bar Association and the Australian Institute of Company Directors. Gary has been a director and member of the Audit and Risk Management Committee of JB Hi-Fi since November 2000 and is also a member of the Remuneration Committee.
Mr Richard Uechtritz Non-Executive Director	Richard has over 20 years experience in retailing. He was co-founder of Australia's two leading photo chains, Rabbit Photo and Smiths Kodak Express. He was also a director of Kodak (Australasia) Pty Ltd. Richard led the management buy-in of JB Hi-Fi in July 2000 and was CEO and Managing Director until his resignation from these positions in May 2010. Richard rejoined the Board in April 2011 as a non-executive director. He currently acts as a consultant to the Group and is also a non-executive director of Seven Group Holdings Limited.

Mr Terry Smart
Chief Executive Officer
and Executive Director

Terry has over 20 years experience in retailing and was a former director and General Manager of Kodak's retail operations. Terry joined the management buy-in of JB Hi-Fi in July 2000 as Operations and Finance Director and was appointed CEO in May 2010.

Mr Richard Murray
Chief Financial Officer and
Executive Director
B.Comm, Grad.Dip. Applied
Finance & Investment, CA

Richard is a Chartered Accountant with almost 20 years experience in finance and accounting. Richard joined JB Hi-Fi as Chief Financial Officer in 2003 and took the business through the IPO (Initial Public Offer) process. Richard was appointed to the Board in June 2012 and was also Company Secretary prior to this date.

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

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

Directorships of other listed companies

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

Name	*Company*	*Period of Directorship*
James King	Navitas Limited	Since November 2004
	Trust Company Limited	Since February 2007
	Pacific Brands Limited	Since September 2009
Beth Laughton	Australand Holdings Limited, Australand Property Limited, Australand Investments Pty Ltd	Since May 2012
Richard Uechtritz	Seven Group Holdings Limited	Since June 2010

Principal activity

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

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

Operating and Financial Review

The Operating and Financial Review, which forms part of this Directors' Report, is presented separately on pages 19 to 26.

Changes in state of affairs

In February 2013, the Group acquired a 51% interest in the Victorian based "Network Neighborhood" business which provides information technology and consulting services and hardware sales to the education and commercial sectors.

In June 2013, the Group renewed its term debt and overdraft facilities.

Further detail on these matters is included in the Operating and Financial Review.

Subsequent events

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

Future developments

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

Environmental regulations

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

Dividends

In respect of the financial year ended 30 June 2012, as detailed in the Directors' Report for that financial year, an interim dividend of 49.0 cents per share and a final dividend of 16.0 cents per share, both franked to 100% at the 30% corporate income tax rate, were paid to the holders of fully paid ordinary shares on 9 March 2012 and 7 September 2012 respectively.

In respect of the financial year ended 30 June 2013, an interim dividend of 50.0 cents per share was paid to the holders of fully paid ordinary shares on 8 March 2013 and the directors have declared the payment of a final dividend of 22.0 cents per share, to be paid to the holders of fully paid ordinary shares on 6 September 2013. Both dividends are franked to 100% at the 30% corporate income tax rate. The total dividend for the financial year of 72.0 cents per share represents a payout ratio of just over 60% of the full year earnings.

Indemnification of officers and auditors

As provided under the Constitution, the Company indemnifies current and former directors and officers for any loss arising from any claim by reason of any wrongful act committed by them in their capacity as a director or officer (subject to certain exclusions as required by law). During the financial year, the Company has paid premiums in respect of contracts insuring the directors and officers against any liability of this nature. In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of the liabilities insured against and the amount of the premiums paid are confidential. The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such 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 the members of the Board or the relevant committee. During the financial year, 15 Board meetings, 5 Remuneration Committee meetings and 7 Audit and Risk Management Committee meetings were held.

	Board of Directors		**Remuneration Committee**		**Audit and Risk Management Committee**	
Directors	*Held*	*Attended*	*Held*	*Attended*	*Held*	*Attended*
G. Richards	15	15	5	5	–	–
J. King	15	15	5	5	7	6
B. Laughton	15	15	–	–	7	7
G. Levin	15	15	5	5	7	7
R. Uechtritz	15	14	–	–	–	–
T. Smart	15	15	–	–	–	–
R. Murray	15	15	–	–	–	–

Directors' shareholdings

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

	Fully paid ordinary shares			Executive share options		
Directors	*Direct number*	*Indirect number*	*Total*	*Direct number*	*Indirect number*	*Total*
G. Richards	3,000	20,000	23,000	–	–	–
J. King	32,258	–	32,258	–	–	–
B. Laughton	500	–	500	–	–	–
G. Levin	30,000	–	30,000	–	–	–
R. Uechtritz	–	–	–	248,507	–	248,507
T. Smart[(i)]	1,001,031	–	1,001,031	829,983	–	829,983
R. Murray[(i)]	117,500	750	118,250	361,597	–	361,597

(i) Excludes any options that may be granted by the Board in August 2013. The issue of any such options to T. Smart and R. Murray, the executive directors of the Company, is also subject to shareholder approval at the Company's Annual General Meeting in October 2013.

Remuneration Report

The Remuneration Report, which forms part of this Directors' Report, is presented separately on pages 27 to 51.

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.

In the 2013 financial year the Company engaged its auditor to carry out a review of its IT systems. The fee for this work was $25,000. The directors are satisfied that the provision of these non-audit services during the year by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Based on advice received from the Audit and Risk Management Committee, the directors are of the opinion that the services as disclosed in note 9 to the financial statements do not compromise the auditor's independence, for the following reasons:

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

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 52 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 Directors' Report and financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

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

On behalf of the directors

Greg Richards
Chairman

Terry Smart
Chief Executive Officer

Melbourne,
12 August 2013

OPERATING AND FINANCIAL REVIEW

OVERVIEW OF OPERATIONS

The Group sells consumer electronics products including televisions, audio equipment, computers, cameras, telecommunications products and services, software (CDs, DVDs, Blu-ray discs and games), musical instruments, whitegoods, cooking products, small appliances, digital content (music, books and video) and information technology and consulting services, in Australia and New Zealand. The Group holds significant market-share in many of its product categories.

The Group's sales are primarily from its branded retail store network. Sales are also generated from the Group's branded online stores, its commercial and education business and its JB HI-FI NOW digital content platform. Further detail is set out below.

As at 30 June 2013 the Group operated the following businesses:

- "JB Hi-Fi" – 168 physical stores and an online store;
- "JB Hi-Fi Home" – launched in November 2012 with 8 stores as at 30 June 2013 and an online store;
- "Clive Anthonys" – 1 store;
- "JB HI-FI NOW" – online digital content platform; and
- "JB Hi-Fi Commercial & Education" (including "Network Neighborhood") – selling products and services to the commercial and education sectors. This business also includes insurance replacements.

FINANCIAL PERFORMANCE – HIGHLIGHTS

	FY13	*FY12*	*Mvt*
Total Sales	$3,308.40m	$3,127.79m	+5.8%
Gross Margin	21.5%	21.1%	+43 bps
Cost of Doing Business ("CODB")	15.1%	14.9%	+18 bps
Earnings Before Interest and Tax ("EBIT")	$177.75m	$161.46m	+10.1%
EBIT Margin	5.4%	5.2%	+21 bps
Net Profit After Tax ("NPAT")[1]	$116.38m	$104.64m	+11.2%
Earnings per share ("EPS")	117.7 cps	105.9 cps	+11.1%
Total dividend - fully franked[2]	72.0 cps	65.0 cps	+10.8%

1 Profit attributable to owners of JB Hi-Fi Limited, excludes 49% of the profits of Network Neighborhood, which is 51% owned by the Company.

2 The final FY2013 dividend is 22.0 cents per share and represents a payout ratio of just over 60% of 2HY13 earnings, to be paid on 6th September 2013 (record date 23rd August 2013).

SALES PERFORMANCE

Total sales were up 5.8% to $3,308.40 million (2012: $3,127.79 million) and comparable sales growth was -0.6% (Australia: -0.5%, New Zealand: -5.5%). In the second half of the financial year, total sales growth was 10.3% with comparable sales growth of 3.2%, up from -3.5% in the first half. [1]

Significant factors in the sales performance were as follows:

Australia[1]

- Sales grew by 6.3%, to $3,140.81 million, as a result primarily of the opening of new stores, the maturing of stores opened in previous years, and the growth of the Commercial & Education and Online businesses.
- Positive momentum in the second half of FY2013 with comparable sales up 3.5% on the second half of FY2012 (-3.4% in first half FY2013).
- Total sales growth in the second half of FY2013 was 10.9% (2.8% in first half FY2013).
- By value, sales were split between hardware at 78.5% and software at 21.5% (FY2012: 76.5%/23.5%). Hardware is defined as all sales excluding music, movies and games software categories.

[1] Comparable sales exclude Clive Anthonys (1 store as at 30 June 2013)

- Hardware sales were up 9% for the financial year with comparable sales up 2.2%.
- The visual category, while down on a comparable sales basis by 11.9% for the financial year, showed improvement in the second half being down 3.6% on the second half of FY2012.
- Software sales (music, movies and games) were -2.6% and, on a comparable basis, -8.9%. The rate of comparable sales decline in software was lower than in FY2012.

New Zealand

- Total sales declined by 5.7% to NZ$209.42 million.
- Comparable sales were -5.5%.
- Sales were impacted by cycling the 2012 Rugby World Cup and an overall softer consumer electronics retail market.

GROSS MARGIN

Gross margin was 21.53% for the period, up 43 bps from the previous financial year.

Significant factors in the gross margin performance were as follows:

- The market remained very competitive in the 2nd half of FY2013 although the Group did not experience the level of unsustainable discounting seen in the 2nd half of FY2012.
- In Australia, the gross margin in FY2013 increased by 43 bps to 21.7%, driven in part by a reduction in the heavy discounting seen in the previous financial year.
- In New Zealand, gross margin increased by 4 bps to 17.7% and improved buying terms enabled the Company to continue reinvesting in price given the competitive market.

COST OF DOING BUSINESS

Cost of doing business ("CODB") was 15.1% for the period; up 18 bps from cost of doing business of 14.9% in the previous financial year. Despite the increase, JB Hi-Fi still has the lowest CODB of the major listed retailers in Australia.

Significant factors in the CODB were as follows:

- In Australia, CODB increased by 17 bps to 15.1% as a result of both lower operating leverage from the reduction in comparable sales and the impact of the 2.9% Fair Work Australia award increase on 1 July 2012. The Fair Work Australia award increases (effective 1 July each year) over the last 3 financial year's amount to 10.6% in aggregate, being 4.3% (2010), 3.4% (2011), and 2.9% (2012).
- Store wages, adjusted for the 2.9% Fair Work Australia award increase, remained flat as a percentage of sales, demonstrating the Company's ability to actively manage its wages in-line with the market while remaining focused on customer service.
- In New Zealand, CODB increased by 43 bps to 15.4% driven by reduced operating leverage from the reduction in comparable sales.

EARNINGS

EBIT was up 10.1% to $177.75 million from EBIT of $161.46 million in the previous financial year and the resulting EBIT margin was 5.37%, up 21 bps from EBIT margin of 5.16% in the previous financial year. Earnings per share were up 11.1% from 105.9 cps to 117.7 cps.

Significant factors in EBIT performance were as follows:

- In Australia, EBIT was up 10.9% to $175.90 million and EBIT margin was up from 5.4% in the previous financial year to 5.6%. This was driven in part by improved gross margins over FY2012.
- In New Zealand, EBIT was down 35.8% to NZ$2.31 million with EBIT margin falling from 1.6% to 1.1%. This was driven by a weaker consumer electronics retail market.

DIVIDENDS

The total dividend for the 2013 financial year of 72.0 cents per share represents a payout ratio of just over 60% of the full year earnings. The Board intends to maintain a dividend payout ratio of approximately 60% of earnings as it continues to grow through its investment in its store rollout program, an expansion of the JB Hi-Fi Home footprint and its digital and online strategies.

FINANCIAL POSITION

The capital structure of the Group has remained stable during the period.

- The Group renewed its term debt and working capital facilities in June 2013. The cost and conditions of this were broadly in line with the previous facilities, except that the facilities are now unsecured. The term debt facility of $200.0 million expires in June 2016. The overdraft facilities of $80.0 million and NZ$10.0 million are renewable annually. The Group also has an additional seasonal bank overdraft facility of $50.0 million in February to April and in November.
- At the end of the financial year the Group had total interest bearing liabilities of $125.0 million.
- Net debt decreased from $110.07 million to $56.96 million.
- The key financial covenants included in the Group's financing facilities are the leverage and fixed charges cover ratios and the shareholder funds covenant.
- During the financial year 96,666 ordinary shares were issued to employees under the Company's share option plans.

INVESTMENTS FOR FUTURE PERFORMANCE

Net cash outflow on investing activities was $38.30 million down from $44.82 million in the prior year. Investing activities comprise Capital Expenditure and Acquisitions.

Capital expenditure

Investments of $35.31 million were made during the financial year in capital expenditure projects, a decrease of $10.77 million from $46.08 million during the previous financial year. Of this capital expenditure:

- $18.72 million related to the 13 new stores opened during the 2013 financial year;
- $3.17 million related to the completion of stores opened during the 2012 financial year;
- $8.77 million related to store relocations and the upgrade/refurbishment of existing stores, including JB Hi-Fi Home; and
- the remainder related to online and digital projects, support office and miscellaneous expenditure.

The major contribution towards the $10.77 million reduction in capital expenditure was the 60% reduction in capital expenditure in our existing stores.

Acquisitions

The Group acquired a 51% interest in the Network Neighborhood business at a cost of $4.20 million. Further detail about this business is set out elsewhere in this Operating and Financial Review.

The acquisition of Network Neighborhood and the capital expenditure outlined above is anticipated to contribute towards solid earnings growth in the 2014 financial year and beyond.

WORKING CAPITAL

Working capital performance was solid with increased inventory turnover, decreased inventory levels and increased creditor days.

Total inventory on hand decreased from the previous financial year, driven primarily by proactive management. The Company's investment in inventory for new stores and private label stock was offset by the reduction in inventory in existing stores and closed stores. Inventory turnover was 6.1 times (FY2012: 5.9 times) and like for like inventory turnover was 6.5 times (FY2012: 6.2 times).

Creditor days remained in line with internal expectations, increasing 3.5 days on the previous financial year to 55.4 days. Both FY2012 & FY2013 year end creditors' balances were influenced by the timing of the year end. With both year ends falling on a weekend, creditor payments were made in the next financial year, thereby resulting in a higher creditors balance and lower net debt. The impact of this timing was circa $90m each period. This will not occur in FY2014.

Receivables relate predominantly to supplier rebates which are in line with internal expectations and fluctuate based on timing of claims and contract terms.

Financial and operating leverage remains low and is evidenced by solid fixed charges cover of 3.2 times (FY2012: 3.1 times) and interest cover of 17.5 times (FY2012: 11.8 times). The Company's gearing ratio is 0.58 (FY2012: 0.76).

STORES

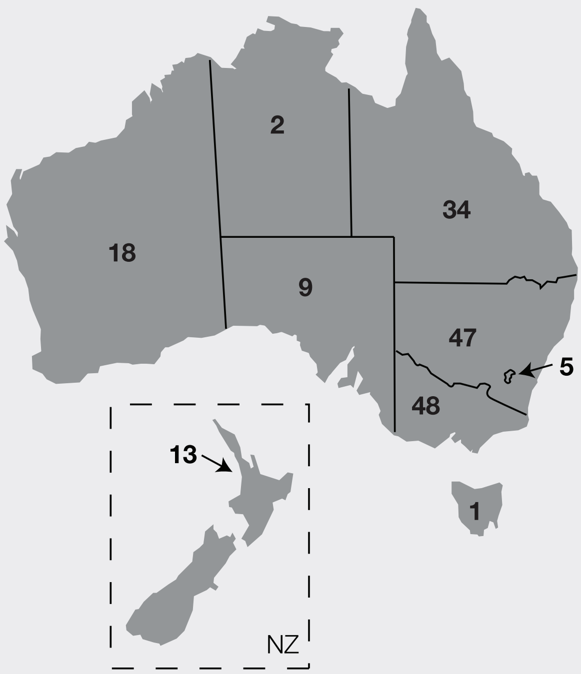
The Group's sales are primarily from its branded retail store network, located both in stand-alone destination sites and shopping centre locations. As at 30 June 2013, the Group had 177 physical stores (Australia: 164, New Zealand: 13). During the 2013 financial year, the Group opened 13 new JB Hi-Fi stores in Australia and closed 3 sub-scale JB Hi-Fi stores and 1 Clive Anthonys store. The Group re-branded 8 stores as "JB Hi-Fi Home" stores during FY2013 and rebranded one further store in July 2013.

The new JB Hi-Fi stores opened in FY2013 were as follows:

- NSW: Port Macquarie, Coffs Harbour, Tamworth, Broadway, Chatswood Chase, North Sydney
- VIC: Fountain Gate, The Glen, Barkley Square
- QLD: Bundaberg, Oxley
- ACT: Tuggeranong
- NT: Darwin (Berrimah)

The store movements during FY2013 and the store locations as at 30 June 2013 are set out below.

		FY13			
	FY12	*Opened*	*Rebrand*	*Closed*	*Total*
Australia					
JB Hi-Fi - Tier 1	135	8	(8)	-	135
JB Hi-Fi - Tier 2	18	5	-	(3)	20
JB Hi-Fi HOME	-	-	8	-	8
	153	13	-	(3)	163
Clive Anthonys	2	-	-	(1)	1
	155	13	-	(4)	164
New Zealand					
JB Hi-Fi - Tier 1	9	-	-	-	9
JB Hi-Fi - Tier 2	4	-	-	-	4
	13	-	-	-	13
TOTAL	168	13	-	(4)	177
JB Hi-Fi store type:					
Tier 1	144	8	(8)	-	144
Tier 2	22	5	-	(3)	24
HOME	-	-	8	-	8
	166	13	-	(3)	176
Store format:					
Shopping centres	83	9	-	-	92
Other	85	4	-	(4)	85
	168	13	-	(4)	177



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ONLINE

The Group's goal is to create a "seamless customer experience" whereby its online sites, combined with its physical locations, provide customers with a choice as to how they wish to shop with JB Hi-Fi.

In FY2013, online sales grew 29.8% on the previous financial year to $65.88 million or approximately 2.0% of sales (FY2012: 1.6%). The popularity of JB Hi-Fi's websites continues to grow with unique visitors to the websites increasing 24.1% over the previous financial year to an average of 1.15 million per week.

It is intended that a new JB Hi-Fi website will be launched in the first half of FY2014 and this will enhance customer experience with improved search functionality and richer product information.

DIGITAL

The Group recognises the need to stay relevant and follow consumers' present and future content consumption behaviour. The Group's device-agnostic digital offering (JB HI-FI NOW) provides customers access to the digital content as detailed below and it also allows JB Hi-Fi to stay engaged with its customers after a physical purchase has been made.

NOW Music:

- Approximately 18 million tracks available and growing; and
- Over 60 million streams and 200,000 trial users, with more than 10% staying on as paid subscribers.

NOW Books:

- Launched in April 2013;
- The Group sees this as a natural add-on to its significant e-reader, tablet and PC sales;
- Fast growing market opportunity; and
- Approximately 250,000 books available and growing.

NOW Video:

- Digital copy (UltraViolet) redemption site launched in May 2013 providing digital movies; and
- Future digital video download/streaming and rental service for feature film and TV episodes.

COMMERCIAL & EDUCATION

The Company has continued to see strong growth in its Commercial & Education business; while off a small base, revenue has grown 68.7% in FY2013 (including the contribution from the Network Neighborhood business acquired during FY2013, details of which are set out below). The commercial and education market is large and fragmented and the Company considers the potential sales opportunity for JB Hi-Fi to be approximately $500m per annum.

The Company has doubled the number of Commercial & Education sales staff in Australia and NZ in the last 12 months.

In February 2013, the Company acquired a 51% interest in the Victorian based "Network Neighborhood" business which provides information technology and consulting services and hardware sales to the education and commercial sectors. This business employs approximately 160 technicians, providing IT support services to approximately 400 schools in Victoria in addition to a number of corporate clients. The business is a key component of the Company's plan to provide an integrated offer of both products and services to enterprise and education customers across Australia. In FY2013, on an annualised basis Network Neighborhood recorded revenue of $24.32 million and EBIT of $2.04 million (for the period since acquisition, Network Neighborhood recorded revenue of $8.57 million and EBIT of $0.76 million). The Company anticipates acquiring the remaining 49% interest in Network Neighborhood within the next 24 months. The acquisition provides the Commercial & Education business with a strong service offer in both education and enterprise.

In March 2013 the Company launched a B2B Telco offer (fixed line, mobility and data).

JB HI-FI HOME

During FY2013 the Group launched its “JB Hi-Fi Home” branded stores. These stores offer a full range of JB Hi-Fi traditional categories with the addition of whitegoods, cooking and small appliances and will allow JB Hi-Fi to capture some of the circa $4.6 billion per annum home appliance market. JB Hi-Fi sees the introduction of these new product categories as a logical extension to its current entertainment categories, predominantly at the Company’s larger homemaker centre sites.

The initial “trial” stores have demonstrated how the Group can integrate appliance categories within its existing model and maintain the unique JB Hi-Fi brand personality.

As at 30 June 2013, 8 stores had been converted to the “Home” brand and early sales results to date have been positive with strong customer engagement and no negative impact on existing JB Hi-Fi categories.

The Company anticipates converting 10 additional existing stores in FY2014, including 1 already converted in July 2013, with a total of 18 JB Hi-Fi Home stores expected by the end of FY2014. The Company sees the potential for approximately 50 JB Hi-Fi Home stores over the next 3 years, with the long term opportunity still to be fully quantified.

In the long term, total store numbers will be dependent on space available in existing stores and the suitability of new store locations.

While the longer term incremental sales opportunity of JB Hi-Fi Home is still to be fully quantified, results to date suggest annualised incremental sales per store of circa $3.0 million in its first year, increasing to circa $5.0 million in its second year.

BUSINESS STRATEGIES AND PROSPECTS

The following factors are considered important in understanding the strategy of the Group and the main opportunities and threats that may have a significant effect on its results and its prospects for future years. These factors are listed regardless of whether they were significant in the 2013 financial year.

Competitive advantages

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

- One of Australia and New Zealand’s largest ranges of home entertainment and consumer electrical products at discounted prices, positioned to appeal to all customers.
- Positioned as a discount retailer with the ability to consistently offer everyday low prices. The Group is able to do this through the scale of its operations, high stock turnover and low cost of doing business.
- Distinctive brand personality.
- Low cost operating model which underpins the Group’s competitive pricing in its store network. The Group is innovative in driving costs down and maintaining the lowest cost of doing business of any major listed Australian retailer.
- Motivated, passionate and knowledgeable staff. Busy and enjoyable working environment means that the Group continues to attract and retain high calibre staff.
- The model is constantly innovating to ensure that it remains current and relevant to its customers. The Group has a culture of embracing change, which is seen as a “natural” part of the business.
- Ability to enter and grow new markets.
- Stores located in high foot traffic precincts which allow both convenient access for customers and maximise impulse traffic.
- Stores have relatively high sales per square metre when compared to many local competitors and comparable international businesses.
- High energy, engaging and entertaining retail format with constantly evolving merchandising.
- High level of loyalty and trust from customers.
- Established and successful online platform with sales growing approximately 30% from the previous financial year and accounting for approximately 2% of FY2013 sales.

- Established digital content platforms, allowing the Group to evolve with its customers. The Group believes that its sales of devices which facilitate access to digital content and its heritage in physical software sales provide it with a significant competitive advantage over other digital content providers.

Strategies to drive growth

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

- Continued roll-out of JB Hi-Fi stores in Australia and New Zealand. The Group anticipates opening 12 new stores in the 2014 financial year and, subject to ongoing review, maintains its stated target of 214 JB Hi-Fi branded stores in Australia and New Zealand. Shorter lease terms will be considered where appropriate to provide flexibility.
- Store roll-out program continues to deliver in excess of its cost of capital.
- Proactive management of store portfolio with continuation of the Group's disciplined approached to selecting new stores based on high foot traffic and closure of underperforming or sub-scale existing stores.
- Continued growth opportunities in many categories and in market share, both in physical stores and online.
- Continued technological innovation and the launch of new products and updated models will continue to drive new and replacement sales.
- New JB Hi-Fi online site to be launched in the first half of FY2014, which is intended to provide improved user experience across multiple platforms (e.g. computer, tablet & phone). JB Hi-Fi Home website launched in FY2013.
- Expansion of online product range and depth beyond that which is optimal in store.
- JB HI-FI NOW digital content platform which will provide users with an integrated experience across a range of digital content, including music, movies, games, books and music videos.
    - Growth of Now Music – presents a longer term sales growth opportunity as the adoption of music streaming gains momentum;
    - Growth of Now Books – add-on opportunity to substantial device sales; and
    - Growth of Now Video service – Digital copy (UltraViolet) redemption site launched. Future digital video download/ streaming and rental service for feature film and TV episodes.
- Ongoing expansion of the size and experience of the JB Hi-Fi Commercial & Education team in order to further drive sales over the next 2-3 years and allow expansion into new markets.
- The roll-out of "JB Hi-Fi Home" branded stores provides a significant growth opportunity over the next 2-3 years. The Group anticipates that circa 10 JB Hi-Fi branded stores will be converted to this format in FY2014 (1 already converted in July 2013), in addition to the 8 stores as at 30 June 2013. The Group sees the potential for approximately 50 JB Hi-Fi Home stores over the next 3 years, with the long term opportunity still to be fully quantified.

Business risks

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

- Competition – The high levels of unsustainable discounting seen in the 2012 financial year as competitors fought for market share, sought to clear excess and aged inventories and closed stores, were less evident in the 2013 financial year. However, the markets in which JB Hi-Fi operates remain highly competitive. The Group believes that the competitive advantages and plans for growth set out above will allow it to maintain its market leading position.

- Consumer discretionary spending – the Group is exposed to consumer spending cycles. The Group maintains its relevance using its strong market position supported by its everyday low price proposition. The Group's stores, which are both in convenient and high traffic locations, seek to maximise both destination and impulse sales.
- International price harmonisation – the Group believes that many of its categories are less exposed to this threat as pricing for many categories is already internationally competitive.
- Online competition taking sales from JB Hi-Fi stores – JB Hi-Fi seeks to provide customers with a quality online offer, while leveraging the benefits of its physical stores. The Group continues to innovate both in-store and online in order to give customers the choice as to how to transact with JB Hi-Fi. The Group's market leadership drives significant buying power which enables the Group to compete successfully with online players as does its low cost of doing business. JB Hi-Fi also believes that the existence of its store network will continue to provide confidence in after-sales service and support to its online customers.
- Digitisation of physical software leading to a fall in traditional software sales – the Group will maintain a software presence in store while seeking to leverage upon its software heritage to maximise digital sales and will continue to develop its JB HI-FI NOW online digital content platform. JB Hi-Fi will maintain an in-store presence while the category is still providing solid returns.
- Over-reliance on certain suppliers or products – whilst certain products and suppliers are, at any one time, more important than others, the large and diverse range of products stocked by JB Hi-Fi means that over-reliance on any one supplier or product is less than for some smaller competitors. In addition, JB Hi-Fi has a proven record of expansion into new product categories and introducing new brands, rather than remaining reliant on those products and brands which were successful in previous years. Several of the Group's most profitable categories in the 2013 financial year were introduced in the past few years and the Group continues to follow this approach.
- Increasing cost of doing business – certain costs of doing business are outside of the Group's control. For example the cost of doing business has been impacted by 3 separate Fair Work Award wage increases over the last 3 years, totalling 10.6% to 30 June 2013. However, the increasing scale of the Group's operations continues to deliver cost reductions which mean that higher wages costs can be offset to some extent by cost reductions in other areas.
- Price deflation – this has always been a feature of consumer electronics retail but has mostly been mitigated by increased volumes.
- Leasing arrangements – the ability to identify suitable sites and negotiate suitable leasing terms for new and existing stores is key to the Group's ongoing growth and profitability. The Group believes that it will continue to be able to do this as it has done successfully to date.

TRADING OUTLOOK– as at 12 August 2013

July 2013 sales update:

- Total consolidated sales growth in July 2013 was 8.0%; and
- Consolidated comparable sales growth (excluding Clive Anthonys) in July 2013 was 2.2%.

The sales result in July 2013 was a strong result given the Group was cycling the Olympics in July 2012 and gaming sales were impacted by consumers awaiting the new console releases due in the first half of FY2014.

A solid pipeline of new products in FY2014, such as UHD TV and gaming consoles, will continue to drive growth in the consumer electronics market.

The Group expects to open 12 new JB Hi-Fi stores in FY2014 in the following locations; NSW 3; VIC 3; QLD 1; WA 1; TAS 1; OTHER AUST 2; NZ 1. Four of these stores are anticipated to open in the first half of FY2014, with one of the 12 to be classified as tier 2. In addition, the Group anticipates converting 10 existing stores to the JB Hi-Fi Home concept in FY2014 (including 1 store already converted in July 2013).

The Group expects sales in FY2014 to increase by between 6% and 8% on the prior financial year.

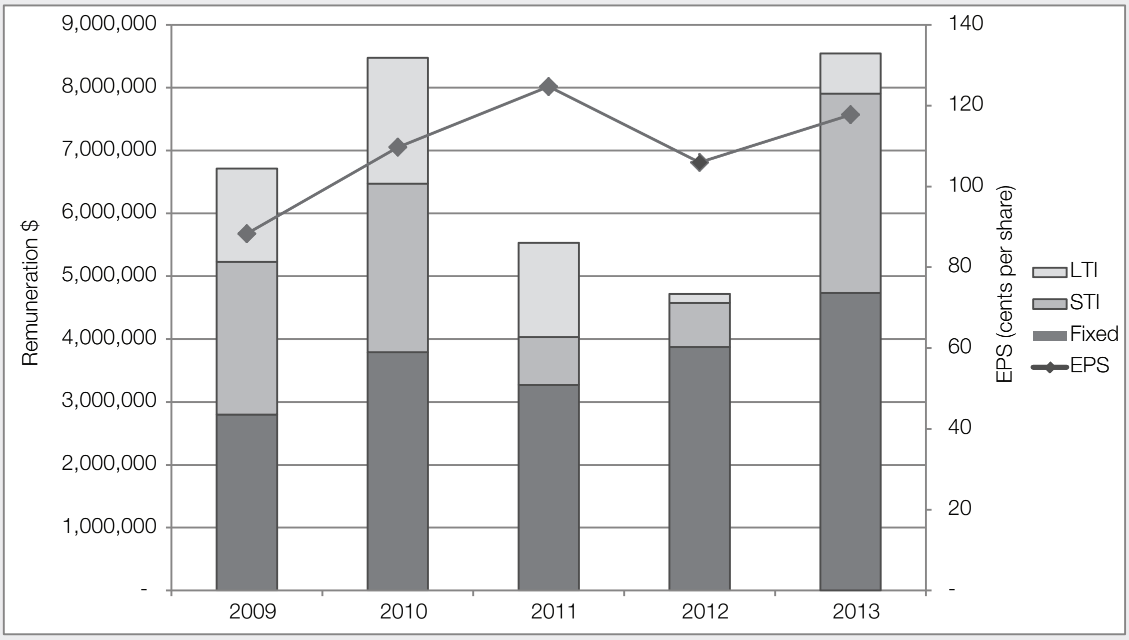
REMUNERATION REPORT (audited)

Remuneration Overview for the 2013 financial year

The Board recognises that the performance of the Group depends on the quality and motivation of its people, including both the executives (being those persons listed as executives on page 30) and the approximately 6,950 employees of the Group across Australia and New Zealand. The Company's remuneration strategy seeks to appropriately reward, incentivise and retain key employees. The Board aims to achieve this by setting competitive remuneration packages that include a mix of fixed remuneration and short and long term incentives ("packages").

The Board notes that the 2013 financial year has been a successful year for the Company, with management having delivered record revenue and increased EBIT and EPS by over 10% from the previous financial year. Further, the Company's share price increased by approximately 90%, from $8.86 at 30 June 2012 to $16.81 at 30 June 2013. These achievements have been reflected in executive remuneration, with executive remuneration being significantly higher for the 2013 financial year than the previous financial year, as demonstrated in the graph below.

Executive remuneration and EPS over the last 5 financial years:



Notes

1. 2013 includes a full year of George Papadopoulos's remuneration, who joined the executive team mid-way through FY2012.
2. 2012 LTI expense is the 2012 period LTI expense only, excluding any prior period write-backs.
3. 2011 EPS is normalised to exclude the impact of the Clive Anthonys restructuring charge.
4. 2010 remuneration excludes the leave entitlement payouts of $277,696 to Richard Uechtritz upon his retirement as CEO.
5. See note 1 on Page 37 for detailed explanation about the LTI expense shown.

As can be seen in the graph, much of the increased remuneration in FY2013 is attributable to the increase in Short Term Incentive ("STI") payments to executives. In FY2013 a significant proportion of available STIs were paid to executives, compared to the previous financial year when 5 out of 6 executives received 25% of available STIs (with the other executive achieving 50% of available STIs). The payment of increased STIs is largely the result of the 10% increase in EBIT over FY2012.

2013 Remuneration Reviews

- In setting the 2013 financial year remuneration packages, the Board and the Remuneration Committee considered a number of factors, including market practice and benchmarking analysis comparing the Company's executive remuneration levels with a comparator group of companies identified by reference to market capitalisation, sales, net profit and number of employees. JB Hi-Fi aims to set remuneration packages for the CEO and CFO at approximately the 75th percentile of the comparator group inclusive of full performance related payments. Remuneration packages for the other executives are then set by reference to the packages for the CEO and CFO.

- As shown in our statutory remuneration tables, in addition to the increase in STI expense, both fixed remuneration and Long Term Incentive ("LTI") expense have increased.
- Fixed remuneration for individual executives has increased between 10% and 15% from FY2012 to FY2013, with the exception of Peter Green (27%). The Board recognises that these increases are significant. However, as one of our key remuneration principles is to appropriately reward, incentivise and retain key employees, the Board needs to regularly review and consider levels of remuneration in light of the market and of changing scope of roles and responsibilities as our business grows. Accordingly, to ensure that remuneration remains at appropriate levels relative to comparable roles in the market, the Board determined to make these changes in FY2013. The higher increase for Peter Green applied on the basis that he was starting from a relatively lower base compared to his peer group in equivalent roles in comparable companies. The Company has obtained independent benchmarking showing that, for the 2013 financial year, the packages for the CEO and CFO are appropriate with reference to the comparator group.
- There was no change from the previous financial year between the mix of fixed remuneration and short and long term incentives.
- As the Company's LTI is subject to an EPS growth performance condition, an assessment is made each year of the likelihood of vesting of options and if required, an adjustment to the expense recognised for those options is made to reflect any changes regarding expectation of vesting. Accordingly, LTI expense has increased as a result of the growth in the Company's EPS over the past 12 months increasing the likelihood of LTIs held by executives vesting in the future. For FY2012, LTI expense for executives was significantly lower as a result of the Company not recognising an expense in relation to options issued in FY2012 and writing back an amount of $1,884,096 which had previously been recorded as an expense from FY2009 to FY2011 for share options issued to executives at that time. These reductions to the recorded expense were required by the Accounting Standards on the basis that the EPS hurdles applicable to these share options were unlikely to be satisfied prior to expiry of the share options. EPS hurdles for the options issued in FY2013 are currently forecast to be satisfied and accordingly have been expensed in accordance with the Accounting Standards. As a result, the FY2013 LTI expense is significantly higher than the previous financial year, but still less than FY2009-FY2011 (as shown in the graph above).

The following paragraphs provide a summary of each of the key elements of executive performance related remuneration for the 2013 financial year. Further detail is set out in the remainder of the Remuneration Report.

Short Term Incentive ("STI") Plan

This year the STI plan was changed to introduce individual quantifiable performance metrics for executives (other than the CEO). This component, which is linked to targets set with regard to individual accountabilities, comprises 15% of the available STI for those executives.

Individual STI outcomes are discussed below:

Chief Executive Officer

- 75% of the total STI available to the CEO was dependent upon the successful achievement of the specific EBIT target for the Group compared to the previous financial year's EBIT (being 110% of previous year's EBIT). The remaining 25% of the total STI available to the CEO was dependent upon the successful achievement of specific qualitative objectives set by the Remuneration Committee with the aim of encouraging focus and improvement in specific areas which are considered important to the long term performance of the business. The CEO was paid 100% of available STI.

Other Executives (excluding CEO)

- 60% of the total STI available to each other executive was dependent upon the successful achievement of the same Group EBIT target as the CEO (as set out above). Each of the other executives was paid 100% of this part of the available STI.
- 15% of the total STI available to each other executive was dependent upon the successful achievement by the executive of specific individual quantitative targets set by the CEO. These targets related to aspects of the business over which the relevant executive had significant influence and where it was felt that increased focus would provide long-term benefit to the business. Two of the five executives (being Richard Murray and Cameron Trainor) received 100% of this part of the available STIs. The other three executives received between 90% and 97% of this part of the available STI.

- 25% of the total STI available to each executive was dependent upon the successful achievement of specific qualitative objectives set for each executive by the CEO. These objectives were set with the aim of encouraging focus and improvement in specific areas for which the relevant executive is responsible and which are considered important to the long term performance of the business. Each of the other executives was paid 100% of this part of the available STI.

Further detail of the targets and objectives successfully achieved in respect of STIs is set out on pages 32 to 34.

Long Term Incentive ("LTI") Plan

- In respect of five of the six executives, no options issued in previous financial years vested during the 2013 financial year. 11,666 options held by Peter Green, and issued prior to Peter Green becoming an executive, vested during FY2013. No options were exercised by executives during the 2013 financial year. The Remuneration Committee notes that the executives realised no financial benefit from the LTI program in FY2013 on this basis.
- During the 2013 financial year each executive was issued share options, some with exercise prices and some with zero exercise prices. The Company believes that this combination provides an appropriate balance in seeking to both reward and retain executives.
- LTIs issued to executives in FY2013 will vest a third each on the third, fourth and fifth anniversary of the effective grant date (being 17 August 2012) provided that all other vesting conditions are satisfied, rather than on the second, third and fourth anniversaries as has occurred in previous years. This change was made to better align rewards with long term performance of the Company.
- All share options granted to executives during FY2013 contain a performance hurdle requiring EPS growth from the statutory 2012 EPS base of 105.93 cents per share. 70% of options vest upon achievement of 5% compound annual EPS growth and the remaining 30% vest upon achievement of 10% compound annual EPS growth. Where compound annual EPS growth is between 5% and 10%, up to 30% will vest on a linear basis. These conditions are lower than the 10% and 15% compound annual EPS growth hurdles which applied for options issued in FY2012. When setting the FY2013 targets in June 2012, the Board considered consensus forecasts, noting these forecast broadly flat earnings for the group over the next two years to FY2014. The Board felt that compound annual EPS growth hurdles of 5% to 10% were more aligned with this earnings outlook.
- The following table illustrates the EPS targets for 5% and 10% compound annual EPS growth:

Year	*FY2015*	*FY2016*	*FY2017*
EPS hurdle - 5% compound growth	122.6	128.8	135.2
Required increase in EPS from FY2012 EPS	16%	22%	28%
EPS hurdle - 10% compound growth	141.0	155.1	170.6
Required increase in EPS from FY2012 EPS	33%	46%	61%

- The issue of options for the 2013 financial year to Terry Smart and Richard Murray, the executive directors of the Company, was approved by shareholders at the Company's Annual General Meeting in October 2012.

2014 Remuneration Packages

In setting executive remuneration packages for the 2014 financial year, the Company does not anticipate making any material changes to the executive remuneration structure used for the 2013 financial year.

Non-executive directors' fees

Non-executive directors' fees have not increased since October 2010 and, following a review in June 2013, will remain at the current level for the 2014 financial year.

Details of key management personnel

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

Directors

Greg Richards	Non-executive Director, Chairman of the Board and Remuneration Committee
James King	Non-executive Director, Member of the Audit and Risk Management Committee and the Remuneration Committee
Beth Laughton	Non-executive Director, Chairman of the Audit and Risk Management Committee
Gary Levin	Non-executive Director, Member of the Audit and Risk Management Committee and the Remuneration Committee
Richard Uechtritz	Non-executive Director
Terry Smart	Chief Executive Officer and Executive Director
Richard Murray	Chief Financial Officer and Executive Director

Executives

Terry Smart	Chief Executive Officer and Executive Director
Richard Murray	Chief Financial Officer and Executive Director
Scott Browning	Marketing Director
Cameron Trainor	Merchandise Director
Peter Green	Operations Director
George Papadopoulos	Technology Director

Remuneration policy for directors and executives

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

For the 2013 financial year the Company engaged CRA Plan Managers to provide advice and certain recommendations in relation to its executive remuneration packages. CRA Plan Managers also provided benchmarking analysis of executive remuneration packages. CRA Plan Managers received a fee of $16,295 for such work.

CRA Plan Managers was engaged, and its report provided, in accordance with the provisions of the Corporations Act 2001 concerning remuneration recommendations in relation to key management personnel for disclosing entities. A declaration was received from CRA Plan Managers to the effect that its recommendations were made free from undue influence by the member or members of the key management personnel to whom the recommendations related and, in view of this declaration and the process adopted in the engagement of CRA Plan Managers and receipt of its recommendations, the Board is satisfied that the recommendations were free of undue influence by such persons.

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.

In line with the JB Hi-Fi Constitution and the ASX Listing Rules, total remuneration for non-executive directors for their services as non-executive directors must not exceed $1,250,000 per annum being the amount determined by the Company in its Annual General Meeting on 12 October 2011. The Board, within the aggregate amount of $1,250,000, determines non-executive directors' individual fees.

The current remuneration packages for non-executive directors were set in October 2010 and remain unchanged for the 2014 financial year following the Remuneration Committee's annual review in June 2013. The Remuneration Committee will continue to review remuneration for non-executive directors on an annual basis in order to ensure that the objectives of the Company's remuneration policies are met.

The remuneration package for the 2013 financial year for non-executive directors is set out below:

Role	*Fees 2013 $*	*Fees 2012 $*
Chairman	$240,000	$240,000
Non-executive director	$120,000	$120,000
Additional Committee Fees		
Audit and Risk Management Committee Chairman	$25,000	$25,000
Audit and Risk Management Committee member	$10,000	$10,000
Remuneration Committee member	$10,000	$10,000

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. Directors 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.

Except for the arrangements in respect of Richard Uechtritz's consulting services, whereby he is able to retain options issued whilst he was CEO of the Group, it is the policy of the Company to not have any elements of non-executive director remuneration at risk. Specifically, non-executive directors do not receive any bonus payments and are not entitled to participate in any Company share option plans.

Group executive remuneration – 2013 financial year

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

In setting the 2013 financial year remuneration packages, the Board and the Remuneration Committee considered a number of factors, including market practice and benchmarking analysis comparing the Company's executive remuneration levels with a comparator group of companies identified by reference to market capitalisation, sales, net profit and number of employees. The Remuneration Committee acknowledges that these measures can fluctuate and that roles and responsibilities included within a particular role will vary from company to company. The Committee also recognises that, at the time of setting executive remuneration for a particular year, information from comparator companies in relation to that year's remuneration (as opposed to previous year's) is not available.

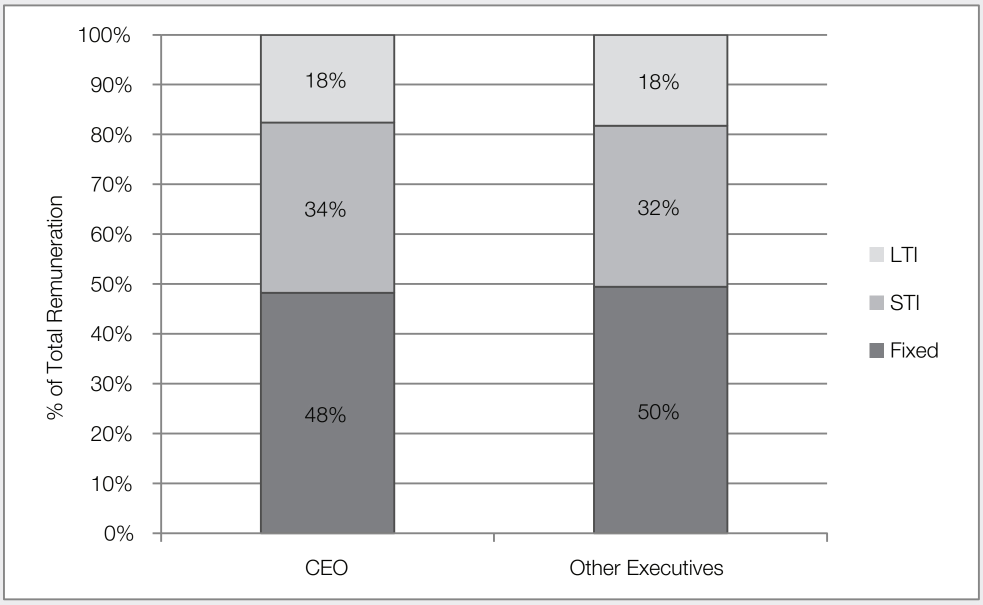
Taking these factors into account, JB Hi-Fi aims to set remuneration packages for the CEO and CFO at approximately the 75th percentile of a comparator group inclusive of full performance related payments. Remuneration packages for the other executives are then set by reference to the packages for the CEO and CFO. The Company has obtained independent benchmarking showing that, for the 2013 financial year, the packages for the CEO and CFO are appropriate with reference to the comparator group.

The Remuneration Committee also considers current market conventions with regard to the splits between fixed, short-term and long-term incentive elements and considers the following target bands appropriate:

Elements of remuneration	**Target proportion of maximum total remuneration package**	
Fixed	Chief Executive Officer	45% - 50%
	Executives	45% - 55%
Short-term incentives (STIs)	Chief Executive Officer	30% - 35%
	Executives	25% - 35%
Long-term incentives (LTIs)	Chief Executive Officer	15% - 20%
	Executives	15% - 25%

For the 2013 financial year, remuneration packages set by the Board, based upon the recommendations of the Remuneration Committee, were as below:

FY2013 executive remuneration package structure:



Fixed Remuneration

Description:

Base salary, motor vehicle allowances and superannuation.

Summary of performance condition:

No elements are dependent on performance conditions.

Short-term Incentive

Description:

Cash bonus

Summary of performance condition:

Under the Group's short-term incentive program, executives' annual cash bonus payments are based on:

- the Group's performance compared to prior year performance ("Quantitative bonus – Group performance");
- the achievement of specific quantitative objectives by the individual executive ("Quantitative Bonus - Individual performance"); and
- the achievement of specific qualitative objectives by the individual executive ("Qualitative Bonus - Individual performance").

Quantitative Bonus - Group performance

The quantitative element of executives' STIs in FY2013 was based on the following criteria:

- If 2013 statutory EBIT was equal to FY2012 statutory EBIT then 25% of this element would be paid; and
- If 2013 statutory EBIT was equal to, or exceeded, 110% of FY2012 statutory EBIT then 100% of this element would be paid.

There was a linear progression for payment of STIs between these two benchmarks.

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

Given FY2013 statutory EBIT exceeded 110% of FY2012 statutory EBIT, 100% of the available quantitative bonus (Group performance) was paid to executives' in FY2013.

Quantitative Bonus - Individual performance

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

Qualitative Bonus - Individual performance

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

Details of STI available by executive

	Quantitative Bonus - Group performance	**Quantitative Bonus - Individual performance**				**Qualitative Bonus - Individual performance**	
Executives	*EBIT*	*Capex (1)*	*PP (2)*	*Wages (3)*	*Online & Digital (4)*	*Non-financial (5)*	*Total Available*
T. Smart	75%					25%	100%
R. Murray	60%	15%				25%	100%
S. Browning	60%				15%	25%	100%
C. Trainor	60%		15%			25%	100%
P. Green	60%			15%		25%	100%
G. Papadopoulos	60%				15%	25%	100%

(1) Capital expenditure.

(2) Product profitability.

(3) Store wage cost control.

(4) Performance of online and digital businesses.

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

- Succession planning and team development
- Strategic leadership and competitive positioning of the Company
- Risk management for the Group
- Operating and capital expenditure control processes
- Inventory and product profitability practices
- Advertising and marketing effectiveness
- Customer service metrics
- Expansion of online and digital assets

Each executive's performance has been measured against the applicable targets. The resulting percentage of STI paid of each element for the financial year 2013 is detailed in the following table:

	Quantitative Bonus - Group performance	Quantitative Bonus - Individual performance				Qualitative Bonus - Individual performance	
Executives	*EBIT*	*Capex*	*PP*	*Wages*	*Online & Digital*	*Non-financial*	*Total Paid*
T. Smart	100%					100%	100%
R. Murray	100%	100%				100%	100%
S. Browning	100%				97%	100%	99.6%
C. Trainor	100%		100%			100%	100%
P. Green	100%			90%		100%	98.5%
G. Papadopoulos	100%				96%	100%	99.3%

Long-term Incentive – 2013 financial year grant

Description:

Executives received a combination of equity options as follows:

a. Options with an exercise price based upon the Company's share price following the release of its results for the 2012 financial year (as have been issued in previous years); and

b. Options with a zero exercise price.

The Company believes that this combination balances rewards for achieving good EPS growth (zero exercise price options) and growth in the Company's share price (traditional options).

Summary of performance condition:

All options issued to executives for the 2013 financial year under the Group's long-term incentive program are subject to a performance hurdle requiring compound annual EPS growth (from FY2012 EPS of 105.93 cps) of between 5% and 10% per annum. 70% of options vest upon achievement of 5% compound annual EPS growth and the remaining 30% vest upon achievement of 10% compound annual EPS growth. Where compound annual EPS growth is between 5% and 10%, up to 30% will vest on a linear basis. The Board considers this equity performance linked remuneration structure is effective in aligning the long-term interests of executives and shareholders.

When setting the performance hurdles of 5% to 10% compound annual EPS growth the Board considered consensus forecasts, noting these forecast broadly flat earnings for the group over the next two years to FY2014. The Board felt the previous hurdles of compound annual EPS growth of 10% and 15% were not aligned with this earnings outlook. As a result the FY2013 LTI hurdles were set at 5% to 10% compound annual EPS growth.

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

The Company believes that retesting is appropriate as the retesting is done against a cumulative EPS figure. This means that if the target is missed in one period, it is compounded and retested in the next period. The table below provides an example of EPS compounding for the purpose of hurdle retesting based on an option granted in August 2012, due to vest in August 2015 and expire in August 2018 assessed against an EPS hurdle of 10%.

Year	*FY2012*	*FY2013*	*FY2014*	*FY2015*	*FY2016*	*FY2017*	*FY2018*
EPS	Grant Base EPS = 105.93	n/a	n/a	Test – Required EPS = 141.0	Retest – Required EPS = 155.1	Retest – Required EPS = 170.6	n/a

Options issued to executives for the 2013 financial year will vest a third each on the third, fourth and fifth anniversary of grant date provided that all other vesting conditions are satisfied. The Company believes that this vesting period appropriately aligns the LTIs with longer term performance.

Further details of the terms of these options, including service and share price conditions are included under the heading "Group share option plans" in the Remuneration Report.

It is Group policy that all long-term incentives issued to executives in subsequent financial periods will continue to be subject to appropriate performance conditions that ensure alignment with the long-term interests of shareholders.

Vesting of options based on 2013 performance

The Company did not achieve the EPS hurdles in relation to options which vest based on 2012 or 2013 financial performance and accordingly no executive options vested which were subject to these performance hurdles. The only options held by any executive which vested during FY2013 were 11,666 options held by Peter Green, and issued prior to Peter becoming an executive.

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

The Company's Securities Trading Policy prohibits executives from altering the economic benefit or risk derived by the executives in relation to their unvested equity options. Executives are annually required to sign a declaration that they are in compliance with all elements of the JB Hi-Fi Securities Trading Policy and have not entered into any arrangements to limit their exposure to the risk in relation to their unvested equity options in the Company. These declarations have been received in relation to the 2013 financial year from all executives.

Key terms of employment agreements

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

The following notice periods have been specifically agreed with executives:

- Richard Murray – if the Company wishes to terminate the employment of Richard, other than for cause, it must provide 6 months' notice to Richard, or a payment in lieu of such notice.
- Cameron Trainor - if the Company wishes to terminate the employment of Cameron, other than for cause, it must provide 9 months' notice to Cameron, or a payment in lieu of such notice. Upon resignation, Cameron must provide the Company with 4 months' notice.
- George Papadopoulos - if the Company wishes to terminate the employment of George, other than for cause, it must provide 4 weeks' notice to George, or a payment in lieu of such notice. Upon resignation, George must provide the Company with 4 weeks' notice.

Subject to the notice periods detailed above:

- upon resignation, each of the executives must provide the Company with reasonable notice as required by law; and
- should the Company wish to terminate the employment of any of the executives at any time, other than for cause, it must also provide reasonable notice to the relevant executive as required by law, or a payment in lieu of such notice.

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

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 and shown below.

The financial performance of the Group is summarised in the table below, whilst the alignment of executive remuneration to the performance of the Group is detailed in the two graphs following the table.

							Growth	
		FY09	*FY10*	*FY11*	*FY12*	*FY13*	*FY13*	*Last 5 years*(iv)
1.	Financial performance:							
	Sales ($m)	2,327.3	2,731.3	2,959.3	3,127.8	3,308.4	6%	13%
	EBIT ($m)	142.0	175.1	196.0(i)	161.5	177.8	10%	12%
	Net profit attributable to owners of the Company ($m)	94.4	118.7	134.4(i)	104.6	116.4	11%	12%
	Basic EPS (cents)	88.3	109.7	124.7(i)	105.9	117.7	11%	14%
2.	Shareholder value created:							
	Company share price at the end of the reporting period ($)	15.40	19.07	17.07	8.86	16.81	90%	10%
	Market capitalisation ($m)	1,651.6	2,066.1	1,682.0	875.8	1,663.3	90%	8%
	Enterprise value(ii) ($m)	1,705.2	2,084.0	1,887.3	985.9	1,720.3	74%	7%
	Movement in enterprise value during the financial year ($m)	473.1	378.8	(196.7)	(901.4)	734.4		
	Dividends paid to shareholders during the financial year ($m)	33.2	67.1	88.4	77.0	65.3		
	Off market share buy-back ($m)	-	-	173.3	-	-		
	Shareholder value created(iii)							
	- per annum ($m)	506.3	445.9	65.0	(824.4)	799.7		
	- cumulative ($m) since IPO	1,581.5	2,027.4	2,092.4	1,268.0	2,067.7	63%	28%(v)
	- rolling ($m) last five years	1,516.7	1,776.0	1,653.9	215.0	992.5	362%	14%

(i) FY11 results are normalised to exclude the impact of the Clive Anthonys restructuring charge ($24.7m post tax).

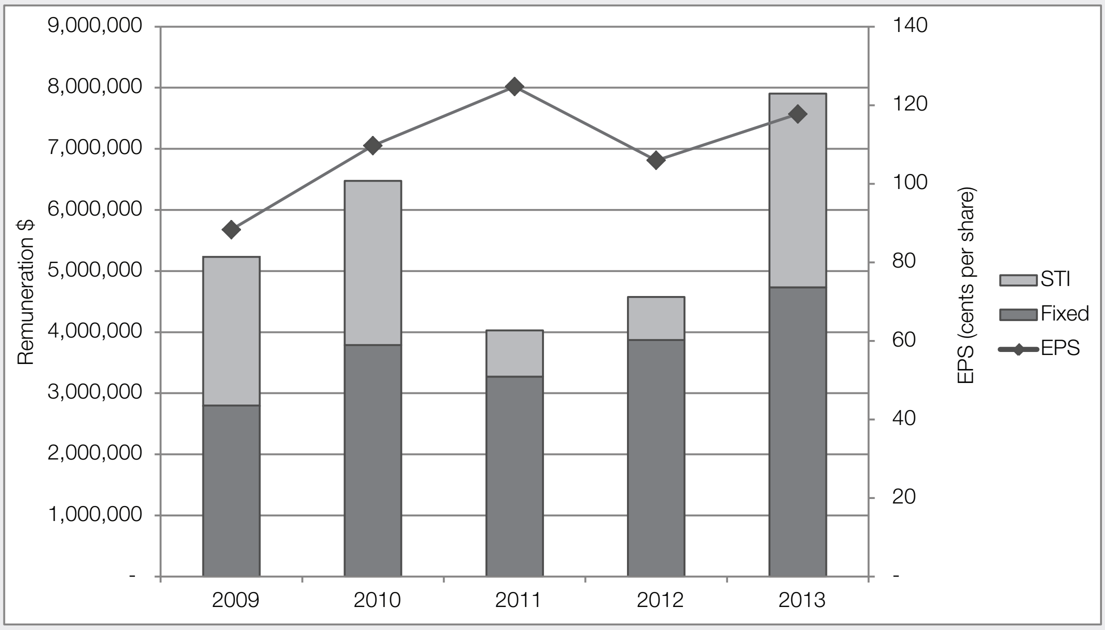
(ii) Enterprise value is measured as the sum of market capitalisation and net debt.

(iii) 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.

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

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

Executive fixed remuneration and STI vs. EPS over the last 5 financial years:



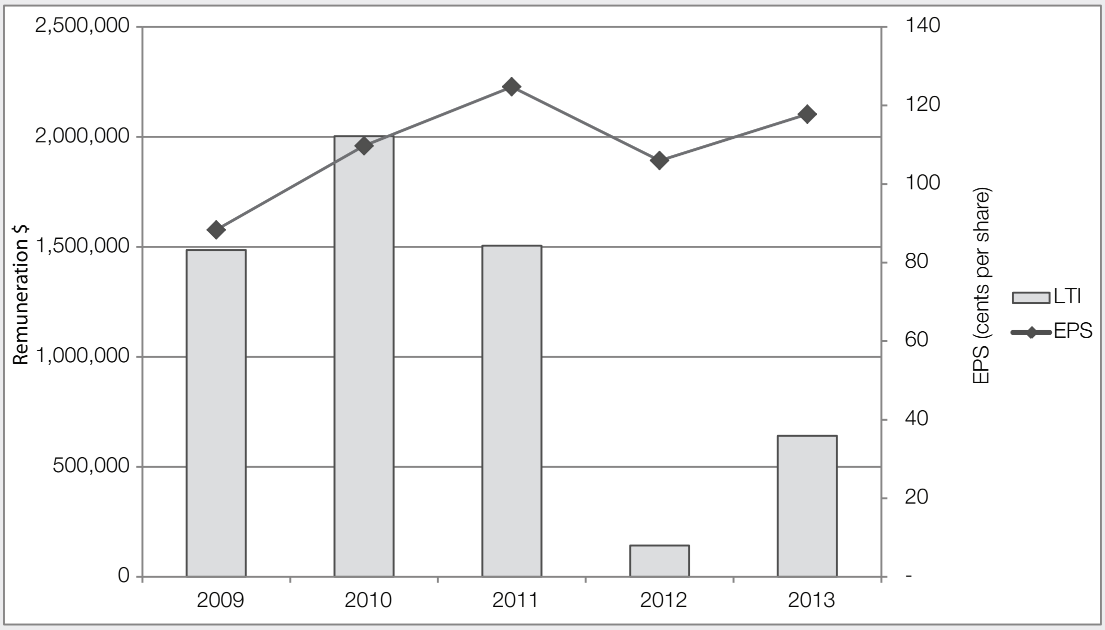
Notes

1. 2013 includes a full year of George Papadopoulos's remuneration, who joined the executive team mid-way through 2012.

2. 2011 EPS is normalised to exclude the impact of the Clive Anthonys restructuring charge.

3. 2010 remuneration excludes the leave entitlement payouts of $277,696 to Richard Uechtritz upon his retirement as CEO.

Executive LTI vs. EPS over the last 5 financial years:



Notes

1. LTI expense shown is the accounting expense recognised in the financial year. In accordance with Accounting Standards, remuneration includes the amortisation of the fair value of options issued under the Group share option plans that are expected to vest, less any write-back on options lapsed or expected to lapse as a result of actual or expected performance against non-market hurdles ("Option Accounting Value"). The fair value of options is measured at grant date in accordance with the relevant accounting standard and progressively allocated to profit or loss over the vesting period of the option. The amount included in remuneration above may not be indicative of the benefit (if any) that key management personnel may ultimately realise should the equity instruments vest.
2. 2012 LTI expense shown is the 2012 period LTI expense only, excluding any prior period write-backs.
3. 2011 EPS is normalised to exclude the impact of the Clive Anthonys restructuring charge.

The effectiveness of the executives' performance related remuneration in driving performance is reflected in the long term growth of the share price of the Company. The following graph plots the JB Hi-Fi closing share price and the ASX 200 on a daily basis between listing on the ASX and 1 August 2013. The JB Hi-Fi closing share price compound annual growth rate between listing and 1 August 2013 is 27.4%, whilst the ASX 200 compound annual growth rate over the same period is 4.6%.

Key management personnel compensation

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

	Consolidated	
	2013 *$*	*2012* *$*
Short-term employee benefits		
Salary and fees	5,113,261	4,390,612
Bonus	3,172,752	705,522
Other	168,085	147,414
	8,454,098	5,243,548
Post-employment benefits		
Superannuation	236,285	267,370
	236,285	267,370
Share based payments		
Current period expense	640,921	165,930
Prior periods expense write-back	–	(1,884,096)
	640,921	(1,718,166)
	9,331,304	3,792,752

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

	Short-term employee benefits				Post-employ-ment benefits	Share based payments[ii]			
	Salary & fees	*Bonus*[ii]	*Other*[iii]	*Total short-term employee benefits*	*Super-annuation*	*Current period expense*[i]	*Prior periods expense write-back*[i]	*Total Share based payments*	*Total*
2013	$	$	$	$	$	$	$	$	$
Non-executive directors									
G. Richards	220,183	–	–	220,183	19,817	–	–	–	240,000
J. King	128,440	–	–	128,440	11,560	–	–	–	140,000
B. Laughton	125,000	–	–	125,000	20,000	–	–	–	145,000
G. Levin	115,000	–	–	115,000	25,000	–	–	–	140,000
R. Uechtritz	110,092	–	–	110,092	9,908	–	–	–	120,000
	698,715	–	–	698,715	86,285	–	–	–	785,000
Executives									
T. Smart	1,580,880	1,160,088	33,711	2,774,679	25,000	203,103	–	203,103	3,002,782
R. Murray	707,780	538,420	28,187	1,274,387	25,000	94,264	–	94,264	1,393,651
S. Browning	558,110	430,576	28,187	1,016,873	25,000	75,723	–	75,723	1,117,596
C. Trainor	702,967	538,420	33,000	1,274,387	25,000	94,264	–	94,264	1,393,651
P. Green	430,809	251,218	20,000	702,027	25,000	60,645	–	60,645	787,672
G. Papadopoulos	434,000	254,030	25,000	713,030	25,000	112,922	–	112,922	850,952
	4,414,546	3,172,752	168,085	7,755,383	150,000	640,921	–	640,921	8,546,304
	5,113,261	3,172,752	168,085	8,454,098	236,285	640,921	–	640,921	9,331,304

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

(ii) Performance based.

(iii) Car allowances.

2013	Performance based: Short-term employee benefits: Maximum Potential STI: Bonus $	% of total potential remuneration	Actual STI: Bonus $	% of total actual remuneration	Share based payments: Maximum Potential LTI: Options $	% of total potential remuneration	Actual LTI[ii]: Options $	% of total actual remuneration
Non-executive directors								
R. Uechtritz[i]	-	0%	-	0%	81,652	40%	-	0%
Executives								
T. Smart	1,160,088	34%	1,160,088	39%	597,783	18%	203,103	7%
R. Murray	538,420	34%	538,420	39%	265,650	17%	94,264	7%
S. Browning	432,522	34%	430,576	39%	217,579	17%	75,723	7%
C. Trainor	538,420	33%	538,420	39%	344,095	21%	94,264	7%
P. Green	255,044	29%	251,218	32%	156,067	18%	60,645	8%
G. Papadopoulos	255,756	28%	254,030	30%	158,590	18%	112,922	13%
	3,180,250	33%	3,172,752	37%	1,739,764	18%	640,921	7%
	3,180,250	33%	3,172,752	37%	1,821,416	18%	640,921	7%

(i) The share based payments included in R. Uechtritz's remuneration relate to options held in respect of his role as a consultant to the Group, which were issued whilst he was CEO of the Group. R. Uechtritz received no other form of remuneration in relation to this role. No options were issued to R. Uechtritz during the current financial year.

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

	Short-term employee benefits				Post-employment benefits	Share based payments[ii]			
2012	*Salary & fees* $	*Bonus*[ii] $	*Other*[vi] $	*Total short-term employee benefits* $	*Super-annuation* $	*Current period expense*[i] $	*Prior periods expense write-back*[i] $	*Total Share based payments* $	*Total* $
Non-executive directors									
G. Richards	148,700	–	–	148,700	13,383	–	–	–	162,083
J. King	120,030	–	–	120,030	10,803	–	–	–	130,833
B. Laughton	111,250	–	–	111,250	20,000	–	–	–	131,250
G. Levin	82,787	–	–	82,787	50,000	–	–	–	132,787
R. Uechtritz	110,092	–	–	110,092	9,908	23,594	(533,099)	(509,505)[iii]	(389,505)
P. Elliott	197,083	–	–	197,083	22,917	–	–	–	220,000
W. Fraser	33,664	–	–	33,664	3,030	–	–	–	36,694
	803,606	–	–	803,606	130,041	23,594	(533,099)	(509,505)	424,142[iv]
Executives									
T. Smart	1,367,020	252,193	33,711	1,652,924	25,000	15,729	(523,272)	(507,543)	1,170,381
R. Murray	607,918	117,048	28,187	753,153	25,000	8,389	(237,640)	(229,251)	548,902
S. Browning	478,376	94,027	28,187	600,590	25,000	8,389	(220,882)	(212,493)	413,097
C. Trainor	611,710	117,048	25,000	753,758	25,000	48,220	(292,301)	(244,081)	534,677
P. Green	329,653	50,206	20,000	399,859	25,000	23,077	(76,902)	(53,825)	371,034
G. Papadopoulos[v]	192,329	75,000	12,329	279,658	12,329	38,532	–	38,532	330,519
	3,587,006	705,522	147,414	4,439,942	137,329	142,336	(1,350,997)	(1,208,661)	3,368,610
	4,390,612	705,522	147,414	5,243,548	267,370	165,930	(1,884,096)	(1,718,166)	3,792,752

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

(ii) Performance based.

(iii) The share based payments included in R. Uechtritz's remuneration for the financial year relate to options held in respect of his role as a consultant to the Group, which were issued whilst he was CEO of the Group. R. Uechtritz received no other form of remuneration in relation to this role. No options were issued to R. Uechtritz during the current financial year.

(iv) Excluding the share based payment amounts attributable to R. Uechtritz's options, which are held in respect of his role as a consultant to the Group and were issued whilst he was CEO of the Group, the amount of fees paid to non-executive directors for services as non-executive directors during the period was $933,647. The Company's Constitution provides that the Directors' Fees pool ($1,250,000) applies to services provided as non-executive directors.

(v) G. Papadopoulos joined JB Hi-Fi in September 2010 and was appointed to the executive team in December 2011. The compensation included in the above table is for the period since G. Papadopoulos became a member of key management personnel (upon appointment to the executive team).

(vi) Car allowances.

	Performance based							
	Short-term employee benefits				Share based payments			
	Maximum Potential STI		Actual STI		Maximum Potential LTI		Actual LTI[iii]	
	Bonus		*Bonus*		*Options*		*Options*	
2012	*$*	*% of total potential remuneration*	*$*	*% of total actual remuneration*	*$*	*% of total potential remuneration*	*$*	*% of total actual remuneration*
Non-executive directors								
R. Uechtritz[i]	–	0%	–	0%	260,237	68%	(509,505)	(131%)
Executives								
T. Smart	1,008,772	34%	252,193	22%	576,171	19%	(507,543)	(43%)
R. Murray	468,191	34%	117,048	21%	251,778	18%	(229,251)	(42%)
S. Browning	376,106	34%	94,027	23%	216,844	19%	(212,493)	(51%)
C. Trainor	468,191	34%	117,048	22%	375,449	25%	(244,081)	(46%)
P. Green	200,822	28%	50,206	14%	148,553	21%	(53,825)	(15%)
G. Papadopoulos[ii]	150,000	18%	75,000	23%	57,425	15%	38,532	12%
	2,672,082	32%	705,522	21%	1,626,220	20%	(1,208,661)	(36%)
	2,672,082	32%	705,522	21%	1,886,457	22%	(1,718,166)	(58%)

(i) Refer footnote (iii) above.

(ii) Refer footnote (v) above.

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

All bonuses are paid in the financial year following the year in which they were earned, for example the 2013 financial year bonuses are paid in July 2013 (the 2014 financial year).

Share options

Group share option plans

The Group has ownership-based remuneration schemes for executives (excluding non-executive directors) and non-executive management. In accordance with the provisions of these schemes, executives and non-executive managers within the Group are granted options to purchase parcels of ordinary shares at various exercise prices or to acquire shares at a zero exercise price. The options issued since July 2004 have the following features:

- no issue price is payable on the issue of an option;
- for all options issued prior to 1 July 2012 and some of the options issued to executives during the 2013 financial year, an exercise price is payable on the exercise of an option. This exercise price is usually calculated as being the closing volume weighted average share price (VWAP) of JB Hi-Fi Limited shares over the 5 trading days post and including the date of release of the Group's full year results, immediately prior to the grant of the option. This price may be calculated by reference to another date, for example where a grant of options occurs other than following the release of results as a result of an executive or non-executive manager joining the Group or being promoted within the Group. Consequently, an option only has "value" if at the time that the performance and service based conditions set out below are satisfied, the market price of JB Hi-Fi Limited shares exceeds the exercise price. For options issued since 1 July 2009, a share price condition provides that options will only vest if, during a trading window (as defined in the Group's Securities Trading Policy), the VWAP of the shares over 5 consecutive trading days exceeds the option exercise price (at a time when all other conditions have been satisfied);
- for some of the options issued since 1 July 2012, a zero exercise price;
- for executives only, performance conditions based on EPS growth. To date, options issued have been subject to performance hurdles which require compound annual earnings per share growth of between 5% and 20% per annum;
- service based conditions - the options issued to executives since 1 July 2012 vest a third each, on the third, fourth and fifth anniversary of grant date provided that the executive remains employed at that time. For all options issued prior to 1 July 2012

and options issued to non-executive management since that date, options vest a third each, on the second, third and fourth anniversary of grant date provided that the executive or non-executive manager remains employed at that time;

- all conditions must be satisfied for an option to vest;
- to the extent that a performance condition is not achieved in one year, the hurdle is compounded and reassessed in each subsequent year, until the earlier of the condition being satisfied or the option expiring;
- all options issued prior to 1 July 2012 and options issued to non-executive management during the 2013 financial year generally expire five years after they are issued. Options issued to executives during the 2013 financial year generally expire six years after they are issued. All unvested options generally expire immediately upon termination of employment although, depending upon the terms of issue, the Company may have discretion to allow the options to continue or waive vesting conditions in certain circumstances. Upon termination of employment, vested options either expire upon termination, 30 days after termination or continue in force depending upon the circumstances of the employee's exit and the terms of issue;
- each option entitles the holder to one ordinary share in JB Hi-Fi Limited;
- holders of options do not have the right, under the options, to dividends or to participate in any share issue or interest issue of JB Hi-Fi Limited or of any other body corporate or registered scheme; and
- other conditions including, amongst other things, treatment of the options in the event of a change of control or capital reorganisation.

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 $*
41	293,335	Ordinary	26/08/2008	$13.52	26/08/2013	$12.98	37.6%	2.0%	5.7%	3.86
42	73,524	Ordinary	26/08/2008	$13.52	26/08/2013	$12.98	37.6%	2.0%	5.7%	3.86
43	31,508	Ordinary	26/08/2008	$13.52	26/08/2013	$12.98	37.6%	2.0%	5.7%	3.86
44	155,088	Ordinary	26/08/2008	$13.52	26/08/2013	$12.98	37.6%	2.0%	5.7%	3.86
45	66,466	Ordinary	26/08/2008	$13.52	26/08/2013	$12.98	37.6%	2.0%	5.7%	3.86
46	90,000	Ordinary	2/04/2009	$12.29	2/04/2014	$11.62	44.9%	2.7%	3.9%	3.57
47	336,000	Ordinary	29/06/2009	$15.06	29/06/2014	$14.92	46.5%	2.9%	5.2%	4.86
48	63,459	Ordinary	29/06/2009	$15.06	29/06/2014	$14.92	46.5%	2.9%	5.2%	4.86
49	27,196	Ordinary	29/06/2009	$15.06	29/06/2014	$14.92	46.5%	2.9%	5.2%	4.86
50	6,500	Ordinary	11/09/2009	$18.10	11/09/2014	$18.25	46.4%	2.4%	5.1%	6.10
51	25,000	Ordinary	29/09/2009	$19.58	29/09/2014	$19.27	46.4%	2.3%	5.1%	6.49
52	186,877	Ordinary	29/06/2009	$15.06	29/06/2014	$14.92	46.5%	2.9%	5.2%	4.86
53	80,090	Ordinary	29/06/2009	$15.06	29/06/2014	$14.92	46.5%	2.9%	5.2%	4.86
54	15,000	Ordinary	12/10/2009	$18.53	12/10/2014	$18.86	46.3%	2.3%	5.3%	6.37
55	55,191	Ordinary	23/12/2009	$22.35	23/12/2014	$22.26	45.8%	2.0%	5.2%	7.61
56	23,653	Ordinary	23/12/2009	$22.35	23/12/2014	$22.26	45.8%	2.0%	5.2%	7.61
57	20,761	Ordinary	3/06/2010	$18.80	3/06/2015	$18.80	45.8%	3.5%	5.1%	5.78
58	28,000	Ordinary	1/07/2010	$19.10	1/07/2015	$19.28	45.7%	3.4%	4.7%	5.88
59	12,000	Ordinary	1/07/2010	$19.10	1/07/2015	$19.28	45.7%	3.4%	4.7%	5.88
60	91,617	Ordinary	13/08/2010	$20.30	13/08/2015	$19.75	45.4%	3.3%	4.7%	6.03
61	39,264	Ordinary	13/08/2010	$20.30	13/08/2015	$19.75	45.4%	3.3%	4.7%	6.03
62	477,500	Ordinary	13/08/2010	$20.30	13/08/2015	$19.75	45.4%	3.3%	4.7%	6.03
63	78,070	Ordinary	13/08/2010	$20.30	13/08/2015	$19.75	45.4%	3.3%	4.7%	6.03
64	33,458	Ordinary	13/08/2010	$20.30	13/08/2015	$19.75	45.4%	3.3%	4.7%	6.03

Shares under option (continued)

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 $
65	26,455	Ordinary	1/12/2010	$18.40	1/12/2015	$18.75	44.9%	3.5%	5.1%	5.67
66	64,644	Ordinary	2/06/2011	$16.75	1/06/2016	$17.03	43.0%	4.5%	5.1%	4.64
67	542,500	Ordinary	12/08/2011	$15.90	12/08/2016	$14.95	41.5%	5.1%	3.9%	3.60
68	170,766	Ordinary	12/08/2011	$15.90	12/08/2016	$14.95	41.5%	5.1%	3.9%	3.60
69	73,186	Ordinary	12/08/2011	$15.90	12/08/2016	$14.95	41.5%	5.1%	3.9%	3.60
70	110,890	Ordinary	12/08/2011	$15.90	12/08/2016	$14.95	41.5%	5.1%	3.9%	3.60
71	47,524	Ordinary	12/08/2011	$15.90	12/08/2016	$14.95	41.5%	5.1%	3.9%	3.60
72	15,000	Ordinary	27/09/2011	$15.05	27/09/2016	$14.73	41.1%	5.2%	3.8%	3.47
73	30,000	Ordinary	29/11/2011	$15.37	29/11/2016	$15.30	40.1%	5.0%	3.4%	3.50
74	35,000	Ordinary	31/01/2012	$12.60	31/01/2017	$12.01	41.0%	6.4%	3.3%	2.53
75	15,000	Ordinary	31/01/2012	$12.60	31/01/2017	$12.01	41.0%	6.4%	3.3%	2.53
76	97,561	Ordinary	31/07/2012	$8.84	31/07/2017	$8.74	32.5%	7.4%	2.7%	1.23
77	120,020	Ordinary	17/08/2012	$9.75	17/08/2017	$0.00	31.4%	6.7%	3.0%	8.57
78	120,011	Ordinary	17/08/2012	$9.75	17/08/2017	$0.00	30.0%	6.7%	3.0%	8.03
79	119,969	Ordinary	17/08/2012	$9.75	17/08/2017	$0.00	39.7%	6.7%	3.0%	7.53
80	547,598	Ordinary	17/08/2012	$9.75	17/08/2018	$9.75	40.4%	6.7%	3.0%	2.04
81	234,686	Ordinary	17/08/2012	$9.75	17/08/2018	$9.75	40.4%	6.7%	3.0%	2.04
82	28,750	Ordinary	17/08/2012	$9.75	17/08/2018	$0.00	30.0%	6.7%	3.0%	8.03
83	12,322	Ordinary	17/08/2012	$9.75	17/08/2018	$0.00	30.0%	6.7%	3.0%	8.03
84	28,750	Ordinary	17/08/2012	$9.75	17/08/2018	$0.00	39.7%	6.7%	3.0%	7.53
85	12,322	Ordinary	17/08/2012	$9.75	17/08/2018	$0.00	39.7%	6.7%	3.0%	7.53
86	28,752	Ordinary	17/08/2012	$9.75	17/08/2018	$0.00	41.2%	6.7%	3.0%	7.06
87	12,322	Ordinary	17/08/2012	$9.75	17/08/2018	$0.00	41.2%	6.7%	3.0%	7.06
88	4,667	Ordinary	6/11/2012	$9.99	6/11/2017	$0.00	31.7%	6.4%	2.8%	8.93
89	4,667	Ordinary	6/11/2012	$9.99	6/11/2017	$0.00	29.3%	6.4%	2.8%	8.39
90	4,666	Ordinary	6/11/2012	$9.99	6/11/2017	$0.00	37.1%	6.4%	2.8%	7.88
		4,817,585								

As at 12 August 2013, 989,529 options are vested and exercisable. In addition, 600,691 options are available to vest and will become exercisable in the period 13 August 2013 to 6 September 2013 if the volume weighted average share price for any 5 consecutive trading days exceeds the exercise price of those options, which range from $14.95 to $22.26 per option.

The weighted average fair value of the share options granted during the financial year is $4.11 (2012: $3.55). Options were valued using the Black-Scholes option pricing model, which takes into account the exercise price, the term of the option, the expected exercise date based on prior years' experience, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate.

The following tables include all share options granted under the Group share option plans that were exercised during and since the end of the current financial year and during the previous financial year. All shares were issued by JB Hi-Fi Limited.

2013

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 $
38	7/04/2008	15/02/2013	23,333	23,333	Ordinary	$9.54	-	$12.41
40	23/07/2008	1/03/2013	53,333	53,333	Ordinary	$11.76	-	$13.48
46	2/04/2009	15/02/2013	20,000	20,000	Ordinary	$11.62	-	$12.41
			96,666	96,666				

2012

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 $
20	15/08/2006	9/08/2011	3,333	3,333	Ordinary	4.81	–	14.48
20	15/08/2006	9/08/2011	3,333	3,333	Ordinary	4.81	–	14.48
20	15/08/2006	9/08/2011	3,334	3,334	Ordinary	4.81	–	14.48
20	15/08/2006	12/08/2011	3,334	3,334	Ordinary	4.81	–	15.90
25	15/08/2006	12/08/2011	15,000	15,000	Ordinary	4.81	–	15.90
29	7/05/2007	4/11/2011	3,000	3,000	Ordinary	8.47	–	15.30
29	7/05/2007	14/02/2012	7,000	7,000	Ordinary	8.47	–	11.80
30	4/07/2007	24/02/2012	10,000	10,000	Ordinary	10.90	–	12.00
32	20/08/2007	22/08/2011	10,000	10,000	Ordinary	11.00	–	14.57
32	20/08/2007	22/08/2011	23,331	23,331	Ordinary	11.00	–	14.57
32	20/08/2007	2/09/2011	13,333	13,333	Ordinary	11.00	–	14.63
35	20/08/2007	2/09/2011	37,111	37,111	Ordinary	11.00	–	14.63
35	20/08/2007	2/09/2011	37,111	37,111	Ordinary	11.00	–	14.63
36	20/08/2007	2/09/2011	15,905	15,905	Ordinary	11.00	–	14.63
36	20/08/2007	2/09/2011	15,904	15,904	Ordinary	11.00	–	14.63
38	7/04/2008	22/08/2011	10,000	10,000	Ordinary	9.54	–	14.57
41	26/08/2008	2/09/2011	19,999	19,999	Ordinary	12.98	–	14.63
44	26/08/2008	14/10/2011	51,696	51,696	Ordinary	12.98	–	15.10
45	26/08/2008	14/10/2011	22,156	22,156	Ordinary	12.98	–	15.10
46	2/04/2009	22/08/2011	10,000	10,000	Ordinary	11.62	–	14.57
47	29/06/2009	6/07/2011	5,000	5,000	Ordinary	14.92	–	16.59
			319,880	319,880				

Long-term incentives subject to performance conditions

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

Option Series	Grant Date	Performance Hurdle[i]	Date for testing	Relevant Financial Year[ii]	Exercise Price $	Expiry Date
Vested (time based service condition and performance hurdle achieved)						
42	26/08/2008	15%	26/08/2011	2011	12.98	26/08/2013
43	26/08/2008	20%	26/08/2011	2011	12.98	26/08/2013
44	26/08/2008	15%	26/08/2010	2010	12.98	26/08/2013
44	26/08/2008	15%	26/08/2011	2011	12.98	26/08/2013
45	26/08/2008	20%	26/08/2010	2010	12.98	26/08/2013
45	26/08/2008	20%	26/08/2011	2011	12.98	26/08/2013
48	29/06/2009	10%	29/06/2011	2011	14.92	29/06/2014
49	29/06/2009	15%	29/06/2011	2011	14.92	29/06/2014
52	29/06/2009	10%	29/06/2011	2011	14.92	29/06/2014
53	29/06/2009	15%	29/06/2011	2011	14.92	29/06/2014

Long-term incentives subject to performance conditions (continued)

Option Series	Grant Date	Performance Hurdle[i]	Date for testing	Relevant Financial Year[ii]	Exercise Price $	Expiry Date
Not vested (time based service condition and performance hurdle achieved but share price vesting condition not achieved)						
55	23/12/2009	10%	23/12/2011	2011	22.26	23/12/2014
56	23/12/2009	15%	23/12/2011	2011	22.26	23/12/2014
Not vested (time based service condition achieved but performance hurdle not achieved)						
42	26/08/2008	15%	26/08/2012	2012	12.98	26/08/2013
43	26/08/2008	20%	26/08/2012	2012	12.98	26/08/2013
44	26/08/2008	15%	26/08/2012	2012	12.98	26/08/2013
45	26/08/2008	20%	26/08/2012	2012	12.98	26/08/2013
48	29/06/2009	10%	29/06/2012	2012	14.92	29/06/2014
48	29/06/2009	10%	29/06/2013	2013	14.92	29/06/2014
49	29/06/2009	15%	29/06/2012	2012	14.92	29/06/2014
49	29/06/2009	15%	29/06/2013	2013	14.92	29/06/2014
52	29/06/2009	10%	29/06/2012	2012	14.92	29/06/2014
52	29/06/2009	10%	29/06/2013	2013	14.92	29/06/2014
53	29/06/2009	15%	29/06/2012	2012	14.92	29/06/2014
53	29/06/2009	15%	29/06/2013	2013	14.92	29/06/2014
55	23/12/2009	10%	23/12/2012	2012	22.26	23/12/2014
56	23/12/2009	15%	23/12/2012	2012	22.26	23/12/2014
58	1/07/2010	10%	1/07/2012	2012	19.28	1/07/2015
58	1/07/2010	10%	1/07/2013	2013	19.28	1/07/2015
59	1/07/2010	15%	1/07/2012	2012	19.28	1/07/2015
59	1/07/2010	15%	1/07/2013	2013	19.28	1/07/2015
60	13/08/2010	10%	13/08/2012	2012	19.75	13/08/2015
61	13/08/2010	15%	13/08/2012	2012	19.75	13/08/2015
63	13/08/2010	10%	13/08/2012	2012	19.75	13/08/2015
64	13/08/2010	15%	13/08/2012	2012	19.75	13/08/2015
68	12/08/2011	10%	12/08/2013	2013	14.95	12/08/2016
69	12/08/2011	15%	12/08/2013	2013	14.95	12/08/2016
70	12/08/2011	10%	12/08/2013	2013	14.95	12/08/2016
71	12/08/2011	15%	12/08/2013	2013	14.95	12/08/2016
Not vested (time based service condition and performance hurdle not achieved)						
55	23/12/2009	10%	23/12/2013	2013	22.26	23/12/2014
56	23/12/2009	15%	23/12/2013	2013	22.26	23/12/2014
58	1/07/2010	10%	1/07/2014	2014	19.28	1/07/2015
59	1/07/2010	15%	1/07/2014	2014	19.28	1/07/2015
60	13/08/2010	10%	13/08/2013	2013	19.75	13/08/2015
60	13/08/2010	10%	13/08/2014	2014	19.75	13/08/2015
61	13/08/2010	15%	13/08/2013	2013	19.75	13/08/2015
61	13/08/2010	15%	13/08/2014	2014	19.75	13/08/2015
63	13/08/2010	10%	13/08/2013	2013	19.75	13/08/2015
63	13/08/2010	10%	13/08/2014	2014	19.75	13/08/2015
64	13/08/2010	15%	13/08/2013	2013	19.75	13/08/2015
64	13/08/2010	15%	13/08/2014	2014	19.75	13/08/2015

Long-term incentives subject to performance conditions (continued)

Option Series	*Grant Date*	*Performance Hurdle*[(i)]	*Date for testing*	*Relevant Financial Year*[(ii)]	*Exercise Price $*	*Expiry Date*
Not vested (time based service condition and performance hurdle not achieved) continued						
68	12/08/2011	10%	12/08/2014	2014	14.95	12/08/2016
68	12/08/2011	10%	12/08/2015	2015	14.95	12/08/2016
69	12/08/2011	15%	12/08/2014	2014	14.95	12/08/2016
69	12/08/2011	15%	12/08/2015	2015	14.95	12/08/2016
70	12/08/2011	10%	12/08/2014	2014	14.95	12/08/2016
70	12/08/2011	10%	12/08/2015	2015	14.95	12/08/2016
71	12/08/2011	15%	12/08/2014	2014	14.95	12/08/2016
71	12/08/2011	15%	12/08/2015	2015	14.95	12/08/2016
74	31/01/2012	10%	31/01/2014	2013	12.01	31/01/2017
74	31/01/2012	10%	31/01/2015	2014	12.01	31/01/2017
74	31/01/2012	10%	31/01/2016	2015	12.01	31/01/2017
75	31/01/2012	15%	31/01/2014	2013	12.01	31/01/2017
75	31/01/2012	15%	31/01/2015	2014	12.01	31/01/2017
75	31/01/2012	15%	31/01/2016	2015	12.01	31/01/2017
80	17/08/2012	5%	17/08/2015	2015	9.75	17/08/2018
80	17/08/2012	5%	17/08/2016	2016	9.75	17/08/2018
80	17/08/2012	5%	17/08/2017	2017	9.75	17/08/2018
81	17/08/2012	5%-10%	17/08/2015	2015	9.75	17/08/2018
81	17/08/2012	5%-10%	17/08/2016	2016	9.75	17/08/2018
81	17/08/2012	5%-10%	17/08/2017	2017	9.75	17/08/2018
82	17/08/2012	5%	17/08/2015	2015	0.00	17/08/2018
83	17/08/2012	5%-10%	17/08/2015	2015	0.00	17/08/2018
84	17/08/2012	5%	17/08/2016	2016	0.00	17/08/2018
85	17/08/2012	5%-10%	17/08/2016	2016	0.00	17/08/2018
86	17/08/2012	5%	17/08/2017	2017	0.00	17/08/2018
87	17/08/2012	5%-10%	17/08/2017	2017	0.00	17/08/2018

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

(ii) For all options subject to performance hurdle testing at 30 June 2011, compound annual earnings per share growth in 2011 was measured on a normalised basis, excluding the impact of the Clive Anthonys restructure charge ($24.7m post tax).

Key management personnel equity holdings

Fully paid ordinary shares of JB Hi-Fi Limited

2013	Balance at 1 July 2012 No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June 2013 No.	Balance held nominally No.
G. Richards	23,000	–	–	–	23,000	3,000
J. King	32,258	–	–	–	32,258	32,258
B. Laughton	500	–	–	–	500	–
G. Levin	30,000	–	–	–	30,000	–
R. Uechtritz	–	–	–	–	–	–
T. Smart	981,031	–	–	20,000	1,001,031	–
R. Murray	118,250	–	–	–	118,250	–
S. Browning	161,536	–	–	–	161,536	–
C. Trainor	–	–	–	2,000	2,000	2,000
P. Green	13	–	–	–	13	–
G. Papadopoulos	–	–	–	–	–	–
	1,346,588	–	–	22,000	1,368,588	37,258

2012 (i)(ii)	Balance at 1 July 2011 No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June 2012 No.	Balance held nominally No.
G. Richards	23,000	–	–	–	23,000	3,000
J. King	32,258	–	–	–	32,258	32,258
B. Laughton	–	–	–	500	500	–
G. Levin	30,000	–	–	–	30,000	–
R. Uechtritz	–	–	73,852	(73,852)	–	–
T. Smart	1,500,000	–	121,031	(640,000)	981,031	–
R. Murray	175,284	–	–	(57,034)	118,250	–
S. Browning	161,536	–	–	–	161,536	–
C. Trainor	–	–	–	–	–	–
P. Green	501	–	10,000	(10,488)	13	–
G. Papadopoulos(iii)	n/a	–	–	–	–	–
	1,922,579	–	204,883	(780,874)	1,346,588	35,258

(i) P. Elliott retired from his position as a non-executive director on 31 May 2012. During the period to 31 May 2012, P. Elliott acquired 9,500 ordinary shares and did not dispose of any ordinary shares. At the date of his retirement, P. Elliott held 219,232 ordinary shares.

(ii) W. Fraser retired from his position as a non-executive director on 12 October 2011. During the period to 12 October 2011, W. Fraser did not acquire or dispose of any ordinary shares. At the date of his retirement, W. Fraser held 6,451 ordinary shares.

(iii) G. Papadopoulos joined JB Hi-Fi in September 2010 and was appointed to the executive team in December 2011. At the date of his appointment to the executive team G. Papadopoulos held no ordinary shares.

Share options of JB Hi-Fi Limited

2013	Balance at 1 July 2012 No.	Granted as compensation[(ii)] No.	Exercised No.	Net other change No.[(iii)]	Balance at 30 June 2013 No.	Balance vested at 30 June 2013 No.	Options vested during year No.
R. Uechtritz[(i)]	328,030	–	–	(79,523)	248,507	58,219	–
T. Smart	509,956	320,027	–	–	829,983	129,240	–
R. Murray	241,340	148,531	–	(28,274)	361,597	41,477	–
S. Browning	218,117	119,317	–	(28,274)	309,160	41,258	–
C. Trainor	210,536	148,531	–	–	359,067	–	–
P. Green	104,252	84,430	–	–	188,682	28,333	11,666
G. Papadopoulos	91,455	84,666	–	–	176,121	–	–
	1,703,686	905,502	–	(136,071)	2,473,117	298,527	11,666

(i) Options held in respect of R. Uechtritz's role as a consultant to the Group which were granted whilst he was CEO of the Group.

(ii) Excludes any options that may be granted by the Board in August 2013. The issue of any such options to T. Smart and R. Murray, executive directors of the Company, is also subject to shareholder approval at the Company's Annual General Meeting in October 2013.

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

2012	Balance at 1 July 2011 No.	Granted as compensation[(ii)] No.	Exercised No.	Net other change No.	Balance at 30 June 2012 No.	Balance vested at 30 June 2012[(iv)] No.	Options vested during year[(iv)] No.
R. Uechtritz[(i)]	401,882	–	(73,852)	–	328,030	137,742	153,375
T. Smart	472,573	158,414	(121,031)	–	509,956	129,240	102,249
R. Murray	167,817	73,523	–	–	241,340	69,751	54,532
S. Browning	159,055	59,062	–	–	218,117	69,532	54,532
C. Trainor	137,013	73,523	–	–	210,536	–	–
P. Green	76,408	37,844	(10,000)	–	104,252	16,667	21,667
G. Papadopoulos[(iii)]	n/a	50,000	–	41,455	91,455	–	–
	1,414,748	452,366	(204,883)	41,455	1,703,686	422,932	386,355

(i) Options held in respect of R. Uechtritz's role as a consultant to the Group which were granted whilst he was CEO of the Group.

(ii) Excludes any options that may be granted by the Board in August 2012. The issue of any options to T. Smart and R. Murray, executive directors of the Company, is also subject to shareholder approval at the Company's Annual General Meeting in October 2012.

(iii) G. Papadopoulos joined JB Hi-Fi in September 2010 and was appointed to the executive team in December 2011. At the date of his appointment to the executive team G. Papadopoulos held 41,455 options over ordinary shares, 15,000 of which had been issued in the 2012 financial year prior to his appointment to the executive team.

(iv) In the 2012 Remuneration Report the disclosure of the balance vested at 30 June 2012 and options vested during year for R. Uechtritz, T. Smart, R. Murray and S. Browning incorrectly included certain options which had not vested because they had not satisfied the required performance condition. The disclosure of the 2012 balances in this 2013 Remuneration Report have been amended to reflect the correction and show the actual balances vested during 2012 and vested at 30 June 2012.

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

During the financial year no options (2012: 204,883) were exercised by key management personnel, and accordingly the weighted average exercise price was $nil (2012: $11.26) per ordinary share in JB Hi-Fi Limited.

Value of key management personnel options granted, exercised and lapsed during the financial year

The following table summarises the value of options granted, exercised or lapsed during the reporting period to the key management personnel:

2013	*Value of options granted – at the grant date*[i] $	*Value of options exercised – at the exercise date* $	*Value of options lapsed – at the date of lapse* $
R. Uechtritz[ii]	–	–	–
T. Smart	892,369	–	–
R. Murray	414,169	–	–
S. Browning	332,705	–	–
C. Trainor	414,169	–	–
P. Green	236,084	–	–
G. Papadopoulos	235,427	–	–
	2,524,923	–	–

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

(ii) Options held in respect of R. Uechtritz's role as a consultant to the Group which were granted whilst he was CEO of the Group.

Value of options – basis of calculation

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.

Options granted during the year

During and since the end of the financial year, an aggregate of 905,502 share options over ordinary shares in JB Hi-Fi Limited were granted to the identified key management personnel.

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

Series	*Grant Date*	*Number of options granted*	*Exercise Price*	*Fair Value per option - at Grant Date*	*Service based condition vesting date*	*Expiry Date*	*Performance condition - cumulative EPS growth per annum*[i]
80.1	17/08/2012	182,533	$9.75	$2.04	17/08/2015	17/08/2018	5%
80.2	17/08/2012	182,533	$9.75	$2.04	17/08/2016	17/08/2018	5%
80.3	17/08/2012	182,532	$9.75	$2.04	17/08/2017	17/08/2018	5%
81.1	17/08/2012	78,229	$9.75	$2.04	17/08/2015	17/08/2018	5%-10%
81.2	17/08/2012	78,229	$9.75	$2.04	17/08/2016	17/08/2018	5%-10%
81.3	17/08/2012	78,228	$9.75	$2.04	17/08/2017	17/08/2018	5%-10%
82	17/08/2012	28,750	$0.00	$8.03	17/08/2015	17/08/2018	5%
83	17/08/2012	12,322	$0.00	$8.03	17/08/2015	17/08/2018	5%-10%
84	17/08/2012	28,750	$0.00	$7.53	17/08/2016	17/08/2018	5%
85	17/08/2012	12,322	$0.00	$7.53	17/08/2016	17/08/2018	5%-10%
86	17/08/2012	28,752	$0.00	$7.06	17/08/2017	17/08/2018	5%
87	17/08/2012	12,322	$0.00	$7.06	17/08/2017	17/08/2018	5%-10%
		905,502					

(i) For options shown with a 5%-10% performance condition, where compound annual EPS growth is between 5% and 10% these options will vest on a linear basis.

In addition to the service based vesting condition and the performance condition outlined above, option series 80.1 to 81.3 are subject to a condition whereby the options will only vest if, during a trading window (as defined in the Group's Securities Trading Policy), the VWAP of the shares over 5 consecutive trading days exceeds the option exercise price (at a time when all other conditions have been satisfied).

The number of options granted to the identified key management personnel by series is set out in the table below:

Number of options granted

Series	*T. Smart*	*R. Murray*	*S. Browning*	*G. Papadopoulos*	*P. Green*	*C. Trainor*	*Total*
80.1	64,512	29,941	24,052	17,067	17,020	29,941	182,533
80.2	64,512	29,941	24,052	17,067	17,020	29,941	182,533
80.3	64,511	29,941	24,053	17,067	17,019	29,941	182,532
81.1	27,648	12,832	10,308	7,315	7,294	12,832	78,229
81.2	27,648	12,832	10,308	7,315	7,294	12,832	78,229
81.3	27,648	12,832	10,308	7,314	7,294	12,832	78,228
82	10,161	4,716	3,788	2,688	2,681	4,716	28,750
83	4,355	2,021	1,624	1,152	1,149	2,021	12,322
84	10,161	4,716	3,788	2,688	2,681	4,716	28,750
85	4,355	2,021	1,624	1,152	1,149	2,021	12,322
86	10,161	4,717	3,788	2,689	2,680	4,717	28,752
87	4,355	2,021	1,624	1,152	1,149	2,021	12,322
	320,027	148,531	119,317	84,666	84,430	148,531	905,502

Options exercised during the year

No options were exercised during the financial year by key management personnel.

Options lapsed during the year

The following table details the options that lapsed during the financial year that were previously issued to the identified key management personnel:

	Series	*Number of options lapsed*	*Grant date*	*Lapse date*	*Exercise price $*	*Share price at lapse date $*	*Fair value per option at lapse date $*
R. Uechtritz	35	55,666	20/08/2007	19/08/2012	$11.00	$9.75	$0.00
	36	23,857	20/08/2007	19/08/2012	$11.00	$9.75	$0.00
		79,523					
T. Smart		–					
R. Murray	33	19,792	20/08/2007	19/08/2012	$11.00	$9.75	$0.00
	34	8,482	20/08/2007	19/08/2012	$11.00	$9.75	$0.00
		28,274					
S. Browning	33	19,792	20/08/2007	19/08/2012	$11.00	$9.75	$0.00
	34	8,482	20/08/2007	19/08/2012	$11.00	$9.75	$0.00
		28,274					
C. Trainor		–					
P. Green		–					
G. Papadopoulos		–					
		136,071					

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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

12 August 2013

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 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Tom Imbesi
Partner
Chartered Accountants

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Member of Deloitte Touche Tohmatsu Limited.

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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 2013, the statement of profit or loss, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 55 to 101.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Auditor's Independence Declaration

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

Opinion

In our opinion:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 27 to 51 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of JB Hi-Fi Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Tom Imbesi

Tom Imbesi
Partner
Chartered Accountants

Melbourne,

12 August 2013

DIRECTORS' DECLARATION

The directors declare that:

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

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

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

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

At the date of this declaration, the Company is within the class of companies affected by ASIC 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

Greg Richards
Chairman
Melbourne,

12 August 2013

Terry Smart
Chief Executive Officer

STATEMENT OF PROFIT OR LOSS
for the financial year ended 30 June 2013

	Notes	Consolidated 2013 $'000	Consolidated 2012 $'000
Revenue	3	3,308,396	3,127,792
Cost of sales		(2,596,194)	(2,467,962)
Gross profit		712,202	659,830
Other income	4	574	613
Sales and marketing expenses		(336,831)	(309,465)
Occupancy expenses		(140,249)	(129,343)
Administration expenses		(27,239)	(26,715)
Other expenses		(30,249)	(32,893)
Finance costs	5	(10,156)	(13,654)
Profit before tax		168,052	148,373
Income tax expense	6	(51,420)	(43,732)
Profit for the year		116,632	104,641
Attributable to:			
Owners of the Company		116,383	104,641
Non-controlling interests		249	-
		116,632	104,641
		Cents	*Cents*
Earnings per share			
Basic (cents per share)	30	117.70	105.93
Diluted (cents per share)	30	117.02	105.87

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

		Consolidated	
	Notes	2013 $'000	2012 $'000
Profit for the year		116,632	104,641
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Changes in the fair value of cash flow hedges (net of tax)	28(a)	800	(823)
Exchange differences on translation of foreign operations	28(a)	3,162	554
Other comprehensive income for the year (net of tax)		3,962	(269)
Total comprehensive income for the year		120,594	104,372
Total comprehensive income is attributable to:			
Owners of the Company		120,345	104,372
Non-controlling interests		249	-
		120,594	104,372

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

BALANCE SHEET
as at 30 June 2013

	Notes	Consolidated 2013 $'000	2012 $'000
ASSETS			
Current assets			
Cash and cash equivalents	10	67,368	39,710
Trade and other receivables	11	64,246	58,378
Inventories	12	426,000	428,290
Other current assets	13	6,038	7,682
Total current assets		563,652	534,060
Non-current assets			
Other financial assets	14	3	3
Plant and equipment	15	181,098	182,048
Deferred tax assets	16	14,839	16,196
Intangible assets	17	83,712	78,842
Total non-current assets		279,652	277,089
Total assets		843,304	811,149
LIABILITIES			
Current liabilities			
Trade and other payables	18	387,020	400,803
Other financial liabilities	19	956	1,303
Current tax liabilities	20	14,932	4,374
Provisions	21	36,391	30,673
Other current liabilities	22	3,080	2,328
Total current liabilities		442,379	439,481
Non-current liabilities			
Borrowings	23	124,331	149,775
Provisions	24	9,416	13,792
Other non-current liabilities	25	23,350	22,797
Other financial liabilities	26	-	803
Total non-current liabilities		157,097	187,167
Total liabilities		599,476	626,648
Net assets		243,828	184,501
EQUITY			
Contributed equity	27	62,774	61,692
Reserves	28(a)	11,762	5,120
Retained earnings	28(b)	168,809	117,689
Equity attributable to owners of the Company		243,345	184,501
Non-controlling interests	29	483	-
Total equity		243,828	184,501

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

Consolidated	Notes	Attributable to owners of JB Hi-Fi Limited Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 July 2011		58,206	4,028	90,079	152,313	-	152,313
Profit for the year		-	-	104,641	104,641	-	104,641
Cash flow hedges (net of tax)	28	-	(823)	-	(823)	-	(823)
Exchange difference on translation of foreign operations	28	-	554	-	554	-	554
Total comprehensive income for the year		-	(269)	104,641	104,372	-	104,372
Issue of shares under share option plan	27	3,514	-	-	3,514	-	3,514
Share issues costs (net of tax)	27	(28)	-	-	(28)	-	(28)
Dividends provided for or paid	31	-	-	(77,031)	(77,031)	-	(77,031)
Employee share options - value of employee services	28	-	1,241	-	1,241	-	1,241
Employee share options - income tax	28	-	120	-	120	-	120
		3,486	1,361	(77,031)	(72,184)	-	(72,184)
Balance at 30 June 2012		61,692	5,120	117,689	184,501	-	184,501
Balance at 1 July 2012		61,692	5,120	117,689	184,501	-	184,501
Profit for the year		-	-	116,383	116,383	249	116,632
Cash flow hedges (net of tax)	28	-	800	-	800	-	800
Exchange difference on translation of foreign operations	28	-	3,162	-	3,162	-	3,162
Total comprehensive income for the year		-	3,962	116,383	120,345	249	120,594
Issue of shares under share option plan	27	1,082	-	-	1,082	-	1,082
Dividends provided for or paid	31	-	-	(65,263)	(65,263)	-	(65,263)
Employee share options - value of employee services	28	-	2,680	-	2,680	-	2,680
Non-controlling interests on acquisition of subsidiary	38	-	-	-	-	234	234
		1,082	2,680	(65,263)	(61,501)	234	(61,267)
Balance at 30 June 2013		62,774	11,762	168,809	243,345	483	243,828

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

	Notes	Consolidated 2013 $'000	2012 $'000
Cash flows from operating activities			
Receipts from customers		3,646,509	3,448,130
Payments to suppliers and employees		(3,442,104)	(3,171,643)
Interest and bill discounts received		455	568
Interest and other finance costs paid		(8,896)	(12,765)
Income taxes paid		(39,554)	(49,283)
Net cash inflow from operating activities	40	156,410	215,007
Cash flows from investing activities			
Payments for acquisition of subsidiary, net of cash acquired	38	(4,197)	-
Payments for plant and equipment	15	(35,307)	(46,078)
Proceeds from sale of plant and equipment		1,203	1,257
Net cash (outflow) from investing activities		(38,301)	(44,821)
Cash flows from financing activities			
Proceeds from issues of equity securities		1,082	3,514
Proceeds / (repayment) of borrowings		(26,210)	(84,174)
Payments for debt issue costs		(632)	(13)
Share issue costs		-	(40)
Dividends paid to owners of the Company	31	(65,263)	(77,031)
Net cash (outflow) from financing activities		(91,023)	(157,744)
Net increase in cash and cash equivalents		27,086	12,442
Cash and cash equivalents at the beginning of the financial year		39,710	27,246
Effects of exchange rate changes on cash and cash equivalents		572	22
Cash and cash equivalents at end of year	10	67,368	39,710

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

Contents of the notes to the financial statements

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 are for 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 and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

(i) Compliance with IFRS

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

(ii) Historical cost convention

These financial statements have been prepared under the historical cost convention, 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, certain classes of property, plant and equipment.

(iii) 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.

The financial statements were authorised for issue by the directors on 12 August 2013.

(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 statements. Amounts in the financial statements 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 2013 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, the Group 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 Group. 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.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and balance sheet respectively.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Principles of consolidation (continued)

(i) Subsidiaries (continued)

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

(ii) Employee Share Trust

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

(iii) Changes in ownership interests

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

When the Company ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(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, 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 asset or liability resulting from a 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 and the amount of any non-controlling interest in the acquiree over the fair value 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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).

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 41. Movements in the hedging reserve in shareholder's equity are shown in note 28.

(i) Cash flow hedge

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

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (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.

1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(i) Derivatives and hedging activities (continued)

(ii) Net investment hedges (continued)

Gains and losses accumulated in equity are reclassified to 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, annual leave are recognised in respect of employee's 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.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. 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 the contributions.

(l) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Foreign currency translation (continued)

(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 statement of profit or loss and statement of profit or loss and other 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, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

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

(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 the end of each reporting period.

(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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax (continued)

Deferred tax (continued)

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.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of profit or loss, 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 or groups of CGU's, 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Intangible assets (continued)

(i) Goodwill (continued)

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) Brandnames 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).

(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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Leases (continued)

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 statement of profit or loss on a straight line basis over the period of the lease.

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

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

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

(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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Revenue recognition (continued)

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) Subscriptions

Revenue from the sale of subscription services is recognised on a straight line basis over the period of the subscription, from the date of activation until expiry, reflecting the period over which the services are supplied.

(iii) Commissions

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

(iv) Rendering of services

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

(v) 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.

(vi) 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.

(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.

(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, with a corresponding increase in equity.

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 such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Trade receivables

Trade receivables are recognised at amortised cost 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 uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(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.

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

(i) AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* and AASB 2012-6 *Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures* (effective from 1 January 2015)

(ii) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements*, AASB 128 *Investments in Associates and Joint Ventures*, AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* and *AASB 2012-10 Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments* (effective 1 January 2013)

(iii) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

(iv) Revised AASB 119 *Employee Benefits and*, AASB 2012-10 *Amendments to Australian Accounting Standards arising from AASB 119* (effective 1 January 2013)

(v) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

(vi) AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosure - Offsetting Financial Assets and Financial Liabilities* (effective 1 January 2013)

(vii) AASB 2012-3 *Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities* (effective 1 January 2014)

(viii) AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements from 2009-2011 Cycle* (effective 1 January 2013)

It is anticipated 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 any other intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1(p). 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.

(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 benefits

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.

Share based payments expense

At each reporting date the Company estimates the number of equity instruments expected to vest in accordance with the accounting policy stated in note 1(x). The number of equity instruments that are expected to vest is based on managements assessment of the likelihood of the vesting conditions attached to the equity instruments being satisfied. The key vesting conditions that are assessed are earnings per share targets and required service periods. The impact of any revision in the number of equity instruments that are expected to vest is recognised as an adjustment to the share based payments expense in the reporting period that the revision is made and is disclosed in note 5.

	Consolidated 2013 $'000	2012 $'000
3 REVENUE		
Sale of goods and services	3,308,396	3,127,792
4 OTHER INCOME		
Interest received - banks	455	568
Other income	119	45
	574	613
5 EXPENSES		
Profit before income tax includes the following specific expenses:		
Depreciation		
Depreciation - Plant and equipment	20,544	19,203
Depreciation - Leasehold improvements	12,688	11,551
	33,232	30,754
Impairment		
Impairment - Plant and equipment	1,143	577
Impairment - Leasehold improvements	431	455
	1,574	1,032
Total depreciation and impairment	34,806	31,786
Finance costs		
Interest on loans	8,702	12,274
Fair value loss on interest swaps designated as cash flow hedges - transfer from equity	1,210	840
Other interest expense	244	540
	10,156	13,654
Rental expense relating to operating leases		
Minimum lease payments	82,056	73,225
Employee benefits expenses		
Defined contribution superannuation expense	23,807	21,950
Equity settled share-based payments - Current period expense	2,680	3,125
Equity settled share-based payments - Prior period expense write-back	-	(1,884)
Other employee benefits	308,337	281,883
	334,824	305,074
Net foreign exchange (gains)/losses	(1)	4
Net loss on disposal of plant and equipment	1,287	755
Impairment of trade receivables	-	162
Inventory shrinkage[(i)]	13,490	12,226

(i) Shrinkage as a percentage of sales was 0.41% (2012: 0.39%).

	Consolidated 2013 $'000	Consolidated 2012 $'000
6 INCOME TAX EXPENSE		
(a) Income tax expense		
Current tax	49,944	41,521
Deferred tax	1,476	2,211
	51,420	43,732
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	168,052	148,373
Tax at the Australian tax rate of 30.0% (2012: 30.0%)	50,416	44,512
Effect of expenses that are not deductible in determining taxable profit	1,042	435
Effect of different tax rates of subsidiaries operating in other jurisdictions	(38)	(56)
Other	-	(1,159)
	51,420	43,732
(c) Amounts recognised directly in equity		
The following current and deferred amounts were charged directly to equity during the period:		
Current tax		
Tax effect of employee share options in reserves	-	(120)
Deferred tax		
Tax effect of hedge gains/(loss) in reserves	345	(353)
Tax effect of share issue costs charged to issued capital	-	(12)
	345	(485)

(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.

	Consolidated	
	2013 *$*	*2012* *$*

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:		
Short-term employee benefits	8,454,098	5,243,548
Post-employment benefits	236,285	267,370
Share-based payments - current period expense	640,921	165,930
	9,331,304	5,676,848
Share-based payments - prior periods expense write-back	-	(1,884,096)
	9,331,304	3,792,752

Detailed remuneration disclosures are provided in the remuneration report on pages 27 to 51.

(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:

2013	*Balance at start of the year*	*Granted as compen-sation(ii)*	*Exercised*	*Other changes(iii)*	*Balance at end of the year*	*Vested and exercisable*	*Unvested*
T. Smart	509,956	320,027	-	-	829,983	129,240	700,743
R. Murray	241,340	148,531	-	(28,274)	361,597	41,477	320,120
S. Browning	218,117	119,317	-	(28,274)	309,160	41,258	267,902
C. Trainor	210,536	148,531	-	-	359,067	-	359,067
P. Green	104,252	84,430	-	-	188,682	28,333	160,349
G. Papadopoulos	91,455	84,666	-	-	176,121	-	176,121
R. Uechtritz(i)	328,030	-	-	(79,523)	248,507	58,219	190,288
	1,703,686	905,502	-	(136,071)	2,473,117	298,527	2,174,590

(i) Options held in respect of R. Uechtritz's role as a consultant to the Group.

(ii) Excludes any options that may be granted by the Board in August 2013. The issue of any options to T. Smart and R. Murray, executive directors of the Company, is also subject to shareholder approval at the Company's Annual General Meeting in October 2013.

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

7 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

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

2012	Balance at start of the year	Granted as compen-sation(ii)	Exercised	Other changes	Balance at end of the year	Vested and exercisable(iv)	Unvested
T. Smart	472,573	158,414	(121,031)	-	509,956	129,240	380,716
R. Murray	167,817	73,523	-	-	241,340	69,751	171,589
S. Browning	159,055	59,062	-	-	218,117	69,532	148,585
C. Trainor	137,013	73,523	-	-	210,536	-	210,536
P. Green	76,408	37,844	(10,000)	-	104,252	16,667	87,585
G. Papadopoulos(iii)	-	50,000	-	41,455	91,455	-	91,455
R. Uechtritz(i)	401,882	-	(73,852)	-	328,030	137,742	190,288
	1,414,748	452,366	(204,883)	41,455	1,703,686	422,932	1,280,754

(i) Options held in respect of R. Uechtritz's role as a consultant to the Group.

(ii) Excludes any options that may be granted by the Board in August 2012. The issue of any options to T. Smart and R. Murray, executive directors of the Company, was also subject to shareholder approval at the Company's Annual General Meeting in October 2012.

(iii) G. Papadopoulos joined JB Hi-Fi in September 2010 and was appointed to the executive team in December 2011. At the date of his appointment to the executive team G. Papadopoulos held 41,455 options over ordinary shares, of which 15,000 were issued during the 2012 financial year prior to his appointment to the executive team.

(iv) In the 2012 Financial Statements the disclosure of the balance vested and exercisable at 30 June 2012 for R. Uechtritz, T. Smart, R. Murray and S. Browning incorrectly included certain options which had not vested because they had not satisfied the required performance condition. The disclosure of the 2012 balances in these 2013 Financial Statements have been amended to reflect the correction and show the actual balances vested and exercisable at 30 June 2012.

All options issued to key management personnel during the financial year were made in accordance with the provisions of the Company's share option plans.

During the financial year no options (2012: 204,883) were exercised by key management personnel and accordingly the weighted average exercise price was $nil (2012: $11.26) per ordinary share in JB Hi-Fi Limited.

Fully paid ordinary shares of JB Hi-Fi Limited

Details of key management personnel equity holdings are as follows:

2013	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 end of the year	Balance held nominally
G. Richards	23,000	-	-	-	23,000	3,000
J. King	32,258	-	-	-	32,258	32,258
B. Laughton	500	-	-	-	500	-
G. Levin	30,000	-	-	-	30,000	-
R. Uechtritz	-	-	-	-	-	-
T. Smart	981,031	-	-	20,000	1,001,031	-
R. Murray	118,250	-	-	-	118,250	-
S. Browning	161,536	-	-	-	161,536	-
C. Trainor	-	-	-	2,000	2,000	2,000
P. Green	13	-	-	-	13	-
G. Papadopoulos	-	-	-	-	-	-
	1,346,588	-	-	22,000	1,368,588	37,258

7 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

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

2012[i] [ii]	*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 end of the year*	*Balance held nominally*
G. Richards	23,000	-	-	-	23,000	3,000
J. King	32,258	-	-	-	32,258	32,258
B. Laughton	-	-	-	500	500	-
G. Levin	30,000	-	-	-	30,000	-
R. Uechtritz	-	-	73,852	(73,852)	-	-
T. Smart	1,500,000	-	121,031	(640,000)	981,031	-
R. Murray	175,284	-	-	(57,034)	118,250	-
S. Browning	161,536	-	-	-	161,536	-
C. Trainor	-	-	-	-	-	-
P. Green	501	-	10,000	(10,488)	13	-
G. Papadopoulos[iii]	-	-	-	-	-	-
	1,922,579	-	204,883	(780,874)	1,346,588	35,258

(i) P. Elliot retired from his position as a non-executive director on 31 May 2012. During the period to 31 May 2012, P. Elliot acquired 9,500 ordinary shares and did not dispose of any ordinary shares. At the date of his resignation, P. Elliott held 219,232 ordinary shares.

(ii) W. Fraser resigned from his position as a non-executive director on 12 October 2011. During the period to 12 October 2011, W. Fraser did not acquire or dispose of any ordinary shares. At the date of his resignation, W. Fraser held 6,451 ordinary shares.

(iii) G. Papadopoulos joined JB Hi-Fi in September 2010 and was appointed to the executive team in December 2011. At the date of his appointment to the executive team G. Papadopoulos held no ordinary shares.

8 SHARE-BASED PAYMENTS

(a) Group share option plans

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

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

The options expire within five years of their issue, except for executive options issued from 1 July 2012 which expire within six years of their issue, or one month after the executive's or non-executive managers resignation, whichever is earlier.

All options issued to executives under the Group's long term incentive program include performance hurdles requiring compound annual EPS growth of between 5% and 20%, with options issued to executives during the year ended 30 June 2013 having an EPS growth performance hurdle of between 5% and 10%.

Some options issued under the Group's share option plans during the year end 30 June 2013 were granted at a zero exercise price, which has affected the weighted average exercise price of the options granted during the financial year.

8 SHARE-BASED PAYMENTS (continued)

(a) Group share option plans (continued)

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

	Balance at start of the year Number	*Granted during the year Number*	*Exercised/ lapsed during the year Number*	*Balance at end of the year Number*	*Vested and exercisable at end of the year Number*
2013					
Outstanding Share Options	3,823,421	1,396,063	(401,899)	4,817,585	989,529
Weighted average exercise price	$15.42	$6.16	$10.94	$13.07	$13.75
2012					
Outstanding Share Options	3,195,434	1,063,366	(435,379)	3,823,421	1,132,803
Weighted average exercise price	$15.16	$14.82	$11.91	$15.42	$13.16

The weighted average remaining contractual life of share options outstanding at the end of the period was 970 days (2012: 943 days).

Fair value of options granted

The weighted average fair value of options granted during the year ended 30 June 2013 was $4.11 (2012: $3.55). The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the expected exercise date based on prior years experience, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate.

The expected price volatility for options granted during the year ended 30 June 2013 is based on the daily closing share price for the 4.44 years preceding the issue of the series, to allow for the effects of early exercise based on prior years' experience, with the exception of zero exercise price options which are based on the vesting date of the series as these options are expected to be exercised as soon as they vest.

Detailed share option disclosures for all options series granted and exercised during the year are provided in the remuneration report on pages 27 to 51.

	Consolidated 2013 $	2012 $
9 REMUNERATION OF AUDITORS		
Audit and other services		
Audit and review of group financial statements	307,250	300,800
Audit and review of subsidiary financial statements	77,750	42,200
Other services (IT systems review)	25,000	-
Total remuneration for audit and other services	410,000	343,000

The auditor of the Group is Deloitte Touche Tohmatsu.

	Consolidated 2013 $'000	2012 $'000
10 CURRENT ASSETS - CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	67,368	39,710
11 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES		
Trade receivables	20,322	16,410
Allowance for doubtful debts	(331)	(564)
	19,991	15,846
Non-trade receivables	44,255	42,532
	64,246	58,378

(a) Terms and conditions

Trade receivables

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

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 2013 $'000	2012 $'000
(b) Ageing of trade receivables		
Not past due	19,334	14,620
Past due but not impaired:		
0 - 30 days	566	862
31 - 60 days	41	364
61 - 90 days	50	-
91+ days	-	-
	19,991	15,846
(c) Movements in allowance for doubtful debts		
Balance at the beginning of the year	564	403
Provision for impairment recognised during the year	-	162
Receivables written off during the year as uncollectable	(70)	(2)
Amounts recovered	-	1
Impairments reversed during the year	(163)	-
	331	564
(d) Ageing of impaired trade receivables		
0 - 31 days	-	-
31 - 60 days	-	12
61 - 90 days	16	289
91+ days	315	263
	331	564

The Group has not impaired all debts that are past due at the reporting date as the Group considers the majority of these amounts to be recoverable.

The Group does not hold any collateral over trade receivables with the exception of retention of title for certain customers.

	Consolidated 2013 $'000	Consolidated 2012 $'000
12 CURRENT ASSETS - INVENTORIES		
Finished goods	426,000	428,290
13 CURRENT ASSETS - OTHER CURRENT ASSETS		
Prepayments	4,260	5,205
Deposits	1,778	2,477
	6,038	7,682
14 NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS		
Equity securities	3	3

	Plant and equipment $'000	*Leasehold improvements $'000*	*Total $'000*
15 NON-CURRENT ASSETS - PLANT AND EQUIPMENT			
At 1 July 2011			
Cost	166,330	94,672	261,002
Accumulated depreciation and impairment	(56,731)	(34,681)	(91,412)
Net book amount	109,599	59,991	169,590
Year ended 30 June 2012			
Opening net book amount	109,599	59,991	169,590
Exchange differences	99	79	178
Additions	27,565	18,513	46,078
Disposals	(1,605)	(407)	(2,012)
Impairment charge recognised in profit or loss	(577)	(455)	(1,032)
Depreciation charge	(19,203)	(11,551)	(30,754)
Closing net book amount	115,878	66,170	182,048
At 30 June 2012			
Cost	190,261	111,948	302,209
Accumulated depreciation and impairment	(74,383)	(45,778)	(120,161)
Net book amount	115,878	66,170	182,048
Year ended 30 June 2013			
Opening net book amount	115,878	66,170	182,048
Exchange differences	491	358	849
Acquisition of subsidiary	173	17	190
Additions	22,244	13,063	35,307
Disposals	(2,348)	(142)	(2,490)
Impairment charge recognised in profit or loss	(1,143)	(431)	(1,574)
Depreciation charge	(20,544)	(12,688)	(33,232)
Closing net book amount	114,751	66,347	181,098
At 30 June 2013			
Cost	207,847	124,852	332,699
Accumulated depreciation and impairment	(93,096)	(58,505)	(151,601)
Net book amount	114,751	66,347	181,098

	Consolidated 2013 $'000	Consolidated 2012 $'000
16 NON-CURRENT ASSETS - DEFERRED TAX ASSETS		
The balance comprises temporary differences attributable to:		
Deferred tax assets		
Tax losses	2,284	2,796
Provisions	19,641	18,500
Trade and other receivables	97	167
Inventories	2,440	2,490
Trade and other payables	654	2,018
Cash flow hedges	289	634
	25,405	26,605
Deferred tax liabilities		
Trade and other receivables	(2,710)	(1,942)
Plant and equipment	(7,856)	(8,467)
	(10,566)	(10,409)
Net deferred tax assets	14,839	16,196

Movements - Consolidated	*Tax Losses $'000*	*Provisions $'000*	*Trade and other receivables $'000*	*Inventories $'000*	*Trade and other payables $'000*	*Plant and equipment $'000*	*Cash flow hedges $'000*	*Total $'000*
At 1 July 2011	3,425	18,109	(1,374)	2,148	2,421	(7,208)	281	17,802
Charged to income	(629)	391	(401)	342	(403)	(1,259)	(252)	(2,211)
Charged to equity	-	-	-	-	-	-	605	605
At 30 June 2012	2,796	18,500	(1,775)	2,490	2,018	(8,467)	634	16,196
At 1 July 2012	2,796	18,500	(1,775)	2,490	2,018	(8,467)	634	16,196
Charged to income	(512)	1,042	(838)	(50)	(1,364)	611	(365)	(1,476)
Charged to equity	-	-	-	-	-	-	20	20
Acquisition of subsidiary	-	99	-	-	-	-	-	99
At 30 June 2013	2,284	19,641	(2,613)	2,440	654	(7,856)	289	14,839

	Goodwill $'000	*Brandnames $'000*	*Location premiums $'000*	*Rights to profit share $'000*	*Total $'000*
17 NON-CURRENT ASSETS - INTANGIBLE ASSETS					
Year ended 30 June 2012					
Opening net book amount	29,648	43,094	2,388	3,542	78,672
Exchange differences	170	-	-	-	170
Closing net book amount	29,818	43,094	2,388	3,542	78,842
Year ended 30 June 2013					
Opening net book amount	29,818	43,094	2,388	3,542	78,842
Additions - business combinations (refer note 38)	3,953	-	-	-	3,953
Exchange differences	917	-	-	-	917
Closing net book amount	34,688	43,094	2,388	3,542	83,712

17 NON-CURRENT ASSETS - INTANGIBLE ASSETS (continued)

Brandnames, 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	
	2013 $'000	*2012 $'000*
JB Hi-Fi Australia	13,724	13,724
Impact Records (store acquisition)	1,727	1,727
JB Hi-Fi New Zealand	13,005	12,088
Rocket Replacements (commercial division)	2,279	2,279
Network Neighborhood (commercial division)	3,953	-
	34,688	29,818

The recoverable amount of each CGU (or group of CGUs) has been determined based on value in use calculations which use cash flow projections from financial budgets approved by management covering a five year period, using a discount rate of 11.0% for JB Hi-Fi Australia, Impact Records and Rocket Replacements (2012: 11.0%) and 11.5% for JB Hi-Fi New Zealand (2012: 11.5%). The cash flows beyond the budget period have been extrapolated using a steady 2% long term growth rate (2012: 2%) which is consistent with the projected long term average growth rate for the consumer products market.

A value in use calculation was not performed for Network Neighborhood as it was acquired during the current financial year, instead impairment for the CGU was tested with reference to the fair value less cost to sell of the CGU. As with other CGU's, the recoverable amount of Network Neighborhood will be assessed on an ongoing basis.

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	
	2013 $'000	*2012 $'000*
18 CURRENT LIABILITIES - TRADE AND OTHER PAYABLES		
Trade payables	334,924	364,951
Goods and services tax (GST) payable	12,669	4,911
Other creditors and accruals	13,588	9,238
Deferred income	25,839	21,703
	387,020	400,803

	Consolidated 2013 $'000	Consolidated 2012 $'000
19 CURRENT LIABILITIES - OTHER FINANCIAL LIABILITIES		
Interest rate swap	956	1,303
20 CURRENT LIABILITIES - CURRENT TAX LIABILITIES		
Income tax	14,932	4,374
21 CURRENT LIABILITIES - PROVISIONS		
Employee benefits[(i)]	35,111	27,802
Lease provision[(ii)]	1,280	2,871
	36,391	30,673

(i) The current provision for employee benefits includes $3,595 thousand of annual leave accrued but not expected to be taken within 12 months (2012: $3,271 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 2013 $'000	Consolidated 2012 $'000
22 CURRENT LIABILITIES - OTHER CURRENT LIABILITIES		
Lease accrual	1,155	565
Lease incentive	1,925	1,763
	3,080	2,328
23 NON-CURRENT LIABILITIES - BORROWINGS		
Secured		
Bank loans	-	149,775
Unsecured		
Bank loans	124,331	-
Total non-current borrowings	124,331	149,775
Financial covenants in relation to the above bank loans are disclosed in note 27(d).		
24 NON-CURRENT LIABILITIES - PROVISIONS		
Employee benefits	3,747	3,304
Lease provision[(i)]	5,522	8,356
Other provisions	147	2,132
	9,416	13,792

(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.

24 NON-CURRENT LIABILITIES - PROVISIONS (continued)

(a) Movement in provisions

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

Consolidated - 2013	Lease provision[i] $'000	Other $'000	Total $'000
Carrying amount at start of year	11,227	2,132	13,359
Additional provisions recognised	500	-	500
Amounts used during the year	(4,925)	(1,985)	(6,910)
Carrying amount at end of year	6,802	147	6,949

(i) Movement schedule is for the total lease provision, including the current provision (note 21) and the non current provision (note 24).

	Consolidated	
	2013 $'000	2012 $'000
25 NON-CURRENT LIABILITIES - OTHER NON-CURRENT LIABILITIES		
Lease accrual	13,558	12,857
Lease incentive	9,792	9,940
	23,350	22,797
26 NON-CURRENT LIABILITIES - OTHER FINANCIAL LIABILITIES		
Interest rate swap	-	803

	Parent entity		Parent entity	
	2013 Shares	2012 Shares	2013 $'000	2012 $'000
27 CONTRIBUTED EQUITY				
(a) Share capital				
Ordinary shares - fully paid	98,947,309	98,850,643	62,774	61,692

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.

(b) Movements in ordinary share capital

Date	*Details*	*Number of shares*	*$'000*
1 July 2011	Opening balance	98,530,763	58,206
	Issue of shares under the Company's share option plans	319,880	3,514
	Share issue costs	-	(40)
	Income tax relating to share issue costs	-	12
30 June 2012	Closing balance	98,850,643	61,692
1 July 2012	Opening balance	98,850,643	61,692
	Issue of shares under the Company's share option plans	96,666	1,082
30 June 2013	Closing balance	98,947,309	62,774

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

27 **CONTRIBUTED EQUITY (continued)**

(c) Share options

In accordance with the provisions of the Company's share option plans, as at 30 June 2013, executives and non-executive management have options over 4,817,585 ordinary shares (of which 3,828,056 were unvested), in aggregate, with various expiry dates.

As at 30 June 2012, executives and non-executive management had options over 3,823,421 ordinary shares (of which 2,690,618 were unvested), in aggregate, with various expiry dates.

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

(d) Capital management

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

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

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

The Board has adopted a policy of monitoring the dividend payout ratio and targeting a payout ratio of approximately 60% of net profit after tax as it seeks to strike a balance between shareholder returns and ensuring adequate capital is retained for the growth of the business so as to maximise long term shareholder returns.

The Group's return on invested capital and gearing ratios as at 30 June 2013 and 30 June 2012 were as follows:

	Consolidated	
	2013 $'000	*2012 $'000*
Return on invested capital		
Profit before tax	168,052	148,373
Net finance costs	9,701	13,086
EBIT	177,753	161,459
Borrowings	124,331	149,775
Cash and cash equivalents	(67,368)	(39,710)
Net debt	56,963	110,065
Total equity	243,828	184,501
Invested capital	300,791	294,566
Return on invested capital	59.1%	54.8%
Gearing		
Term debt	125,000	150,000
EBIT	177,753	161,459
Depreciation and amortisation	33,232	30,754
EBITDA	210,985	192,213
Net loss on disposal of plant and equipment(i)	1,287	755
Fixed rent expense(i)	1,243	2,117
Share based payments expense(i)	2,680	1,241
Adjusted EBITDA	216,195	196,326
Gearing	0.58	0.76

(i) As required under the terms of the syndicated facilities agreement, for the purposes of calculating the gearing ratio the impact of loss/gain on disposal of plant and equipment, fixed rent expense and share based payments expense are excluded from the calculation.

27 CONTRIBUTED EQUITY (continued)

(d) Capital management (continued)

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 excluding any loss/gain on disposal of plant and equipment, fixed rent expense and share based payments expense divided by the sum of interest expense plus operating lease expense plus rent expense) - not less than 1.75:1;
- gearing ratio (outstanding debt divided by earnings before interest, tax, depreciation and amortisation excluding any loss/gain on disposal of plant and equipment, fixed rent expense and share based payments expense) - not greater than 3.25:1; and
- minimum shareholder funds (total assets less total liabilities) - not less than $150 million.

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

	Consolidated	
	2013 $'000	*2012 $'000*
28 RESERVES AND RETAINED EARNINGS		
(a) Reserves		
Hedging reserve - interest rate swaps	(647)	(1,447)
Equity-settled benefits	13,922	11,242
Hedging reserve - net investment	850	850
Foreign currency translation reserve	(1,138)	(4,300)
Other reserve	(1,225)	(1,225)
	11,762	5,120
Movements:		
Hedging reserve - interest rate swaps		
Balance 1 July	(1,447)	(624)
(Loss)/gain recognised	(65)	(2,016)
Deferred tax	20	605
Transferred to profit or loss	1,210	840
Deferred tax	(365)	(252)
Balance 30 June	(647)	(1,447)
Equity-settled benefits		
Balance 1 July	11,242	9,881
Option expense	2,680	1,241
Employee share options - income tax	-	120
Balance 30 June	13,922	11,242
Hedging reserve - net investment		
Balance 1 July	850	850
Gain/(loss) recognised	-	-
Balance 30 June	850	850

	Consolidated	
	2013 $'000	*2012 $'000*
28 RESERVES AND RETAINED EARNINGS (continued)		
(a) Reserves (continued)		
Foreign currency translation reserve		
Balance 1 July	(4,300)	(4,854)
Currency translation differences arising during the year	3,162	554
Balance 30 June	(1,138)	(4,300)
Other reserve		
Balance 1 July	(1,225)	(1,225)
Gain/(loss) recognised	-	-
Balance 30 June	(1,225)	(1,225)
(b) Retained earnings		
Movements in retained earnings were as follows:		
Balance 1 July	117,689	90,079
Profit for the year attributable to owners of the Company	116,383	104,641
Dividends provided for or paid	(65,263)	(77,031)
Balance 30 June	168,809	117,689

(c) Nature and purpose of reserves

(i) Hedging reserve - interest rate swap

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 executives and non-executive management under the Company's share option plans. Further information about share based payments is 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

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.

	2013 $'000	2012 $'000
29 NON-CONTROLLING INTERESTS		
Balance at beginning of year	-	-
Non-controlling interest on the acquisition of Network Neighborhood Pty Ltd (refer to note 38)	234	-
Profit attributable to non-controlling interest	249	-
Balance at end of year	483	-

	Consolidated	
	2013 Cents	2012 Cents
30 EARNINGS PER SHARE		
Basic (cents per share)	117.70	105.93
Diluted (cents per share)	117.02	105.87

	Consolidated	
	2013 $'000	2012 $'000
(a) Reconciliation of earnings used in calculating earnings per share		
Basic earnings per share		
Profit for the year attributable to owners of the Company	116,383	104,641
Diluted earnings per share		
Profit for the year attributable to owners of the Company	116,383	104,641

	Consolidated	
	2013 Number '000	2012 Number '000
(b) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	98,884	98,782
Adjustments for calculation of diluted earnings per share:		
Options	569	60
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	99,453	98,842

(c) Information concerning the classification of securities

Options

Options granted under the Company's share option plans are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive (569,371 options are considered dilutive (2012: 60,274), 4,068,558 are considered anti dilutive (2012: 3,763,147)). 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.

	Parent entity	
	2013 *$'000*	*2012* *$'000*
31 DIVIDENDS		
(a) Ordinary shares		
Interim dividend of 50.0 cents (2012: 49.0 cents) per share:		
Franked to 100% at 30.0% (2012: 30%)	49,447	48,432
Final dividend of 16.0 cents (2012: 29.0 cents) per share:		
Franked to 100% at 30.0% (2012: 30%)	15,816	28,599
Total dividends provided for or paid	65,263	77,031

	Consolidated	
	2013 *$'000*	*2012* *$'000*
(b) Dividends not recognised at the end of the reporting period		
Final dividend for the year ended 30 June 2013 of 22.0 cents (2012: 16.0 cents) per share:		
Franked to 100% at 30% (2012: 100% at 30%)	21,768	15,816

In respect of the financial year ended 30 June 2013, the directors have recommended the payment of a final dividend of 22 cents per share franked to 100% at 30% corporate income tax rate. The record date is 23 August 2013.

	Consolidated entity	
	2013 *$'000*	*2012* *$'000*
(c) Franked dividends		
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2012: 30.0%)	90,881	68,760

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 $9,329 thousand (2012: $6,778 thousand).

32 COMMITMENTS

(a) 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	
	2013 *$'000*	*2012* *$'000*
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	71,083	65,910
Later than one year but not later than five years	232,079	237,978
Later than five years	95,313	111,726
	398,475	415,614

33 SUBSIDIARIES

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

			Equity holding	
Name of entity	*Country of incorporation*	*Class of shares*	*2013 %*	*2012 %*
Parent entity				
JB Hi-Fi Limited[(i)]				
Subsidiaries				
JB Hi-Fi Group Pty Ltd[(ii)]	Australia	Ordinary	100	100
Clive Anthonys Pty Ltd[(ii)]	Australia	Ordinary	100	100
JB Hi-Fi (A) Pty Ltd[(ii)]	Australia	Ordinary	100	100
Rocket Replacements Pty Ltd[(ii)]	Australia	Ordinary	100	100
JB Hi-Fi Group (NZ) Limited	New Zealand	Ordinary	100	100
JB Hi-Fi NZ Limited	New Zealand	Ordinary	100	100
Network Neighborhood Pty Ltd[(iii)]	Australia	Ordinary	51	-

(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.

(iii) On 19 February 2013, JB Hi-Fi Limited acquired 51% of the share capital of Network Neighborhood Pty Ltd, refer to note 38 for details.

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

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 Class Order 98/1418 (as amended).

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

	2013 $'000	*2012 $'000*
(a) Consolidated statement of profit or loss, statement of profit or loss and other comprehensive income		
Statement of profit or loss		
Revenue	3,132,242	2,954,632
Cost of sales	(2,451,511)	(2,325,377)
Gross profit	680,731	629,255
Other income	544	559
Sales and marketing expenses	(319,314)	(293,006)
Occupancy expenses	(131,779)	(120,138)
Administration expenses	(25,726)	(25,276)
Finance costs	(10,125)	(13,597)
Other expenses	(28,888)	(32,222)
Profit before income tax	165,443	145,575
Income tax expense	(50,653)	(42,962)
Profit for the year	114,790	102,613

34 DEED OF CROSS GUARANTEE (continued)

	2013 $'000	2012 $'000
(a) Consolidated statement of profit or loss, statement of profit or loss and other comprehensive income (continued)		
Statement of profit or loss and other comprehensive income		
Profit for the year	114,790	102,613
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges (net of tax)	800	(823)
Other comprehensive income for the year (net of tax)	800	(823)
Total comprehensive income for the year	115,590	101,790
(b) Balance sheet		
Current assets		
Cash and cash equivalents	58,863	31,998
Trade and other receivables	59,102	56,235
Inventories	397,460	401,367
Other	5,879	7,557
Total current assets	521,304	497,157
Non-current assets		
Other financial assets	56,328	51,644
Plant and equipment	169,354	169,956
Deferred tax assets	12,159	13,262
Intangible assets	66,755	66,755
Total non-current assets	304,596	301,617
Total assets	825,900	798,774
Current liabilities		
Trade and other payables	367,143	380,027
Current tax liabilities	14,734	4,391
Provisions	34,579	29,298
Other financial liabilities	956	1,303
Other	2,952	2,254
Total current liabilities	420,364	417,273
Non-current liabilities		
Borrowings	124,331	149,775
Provisions	9,416	13,793
Other financial liabilities	-	803
Other	22,330	21,760
Total non-current liabilities	156,077	186,131
Total liabilities	576,441	603,404
Net assets	249,459	195,370
Equity		
Contributed equity	62,774	61,692
Reserves	12,901	9,420
Retained earnings	173,784	124,258
Total equity	249,459	195,370

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 2013 is as follows:

2013	*Australia $'000*	*New Zealand $'000*	*Total $'000*
Revenue from external customers	3,140,813	167,583	3,308,396
Operating EBITDA	207,125	3,860	210,985
Total segment assets	828,923	66,151	895,074
Additions to plant and equipment	34,660	647	35,307
Depreciation and impairment	32,796	2,010	34,806
Total segment liabilities	578,720	20,880	599,600

2012	*Australia $'000*	*New Zealand $'000*	*Total $'000*
Revenue from external customers	2,954,632	173,160	3,127,792
Operating EBITDA	187,539	4,674	192,213
Total segment assets	798,774	64,366	863,140
Additions to plant and equipment	45,180	898	46,078
Depreciation and impairment	29,916	1,870	31,786
Total segment liabilities	603,404	23,592	626,996

(i) Segment revenue

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

	Consolidated	
	2013 $'000	*2012 $'000*
Total segment revenue	3,308,396	3,127,792
Interest revenue	455	568
Other revenue	119	45
Total revenue from continuing operations	3,308,970	3,128,405

35 SEGMENT INFORMATION (continued)

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

(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 operating EBITDA to operating profit before income tax is provided as follows:

	Consolidated	
	2013 $'000	*2012 $'000*
Operating EBITDA	210,985	192,213
Interest revenue	455	568
Finance costs	(10,156)	(13,654)
Depreciation	(33,232)	(30,754)
Profit before income tax from continuing operations	168,052	148,373

(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	
	2013 $'000	*2012 $'000*
Segment assets	895,074	863,140
Intersegment eliminations	(51,770)	(51,991)
Total assets as per the balance sheet	843,304	811,149

(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	
	2013 $'000	*2012 $'000*
Segment liabilities	599,600	626,996
Intersegment eliminations	(124)	(348)
Total liabilities as per the balance sheet	599,476	626,648

(c) Product information

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

	Parent Entity 2013 $'000	Parent Entity 2012 $'000
36 PARENT ENTITY FINANCIAL INFORMATION		
Assets		
Current assets	1,564	627
Non-current assets	93,494	79,026
Total assets	95,058	79,653
Liabilities		
Current liabilities	14,734	4,391
Total liabilities	14,734	4,391
Shareholders' equity		
Contributed equity	62,774	61,692
Reserves	13,922	11,242
Retained earnings	3,628	2,328
	80,324	75,262
Profit or loss for the year	66,563	78,059
Total comprehensive income	66,563	78,059

37 RELATED PARTY TRANSACTIONS

(a) Parent entities

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

Richard Uechtritz acted as a consultant to the Group throughout the period. Richard Uechtritz's remuneration for his services as a consultant are in the form of the retention of the share options which were previously issued when he was the CEO of the company. No additional options have been issued during the period. The options held and remuneration of Richard Uechtritz in his role as a non-executive director and consultant to the Group have been included in the Key Management Personnel reporting disclosure in note 7 and the remuneration report on pages 27 to 51.

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 BUSINESS COMBINATION

(a) Summary of acquisition

On 19 February 2013 the parent entity acquired 51% of the issued share capital of Network Neighborhood Pty Ltd, a provider of information technology and consulting services and hardware sales to the education and commercial sectors. The acquisition is expected to enable the Group to expand its offering in the educational services and sales market through access to the acquiree's assembled workforce and experience in this market.

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

	$'000
(i) *Purchase consideration:*	
Cash paid	4,197

	Fair value $'000
(ii) *The assets and liabilities recognised at the date of the acquisition are as follows:*	
Current assets	
Trade and other receivables	4,544
Inventories	232
Prepayments	7
Non-current assets	
Plant and equipment	190
Deferred tax asset	99
Current liabilities	
Trade and other payables	(4,264)
Provisions	(330)
Net assets acquired	478

	$'000
(iii) *The goodwill arising on the acquisition is as follows:*	
Consideration transferred	4,197
Plus: non-controlling interests	234
Less: fair value of identifiable net assets	(478)
Goodwill arising on acquisition	3,953

Goodwill arose on the acquisition of Network Neighborhood Pty Ltd because the consideration paid for the business combination included amounts in relation to the benefit of the assembled workforce, future market growth and synergies with existing JB Hi-Fi divisions. These benefits are not recognised separately as they do not meet the recognition criteria for intangible assets.

The goodwill arising on the acquisition will not be deductible for tax purposes.

(iv) *Non-controlling interests*

In accordance with the accounting policy set out in note 1(f), the Group elected to recognise the non-controlling interests in Network Neighborhood Pty Ltd at the non-controlling interests proportionate share of the recognised amounts of Network Neighborhood Pty Ltd's identifiable net assets.

38 BUSINESS COMBINATION (continued)

(a) Summary of acquisition (continued)

(v) Impact of acquisitions on the results of the Group

The acquired business generated revenues of $8,571 thousand and net profit of $508 thousand ($259 thousand attributable to owners of the Company) for the period from 19 February 2013 to 30 June 2013.

If the acquisition had occurred on 1 July 2012, the acquired business would have contributed revenues of $24,318 thousand and net profit of $1,424 thousand ($726 thousand attributable to owners of the Company) for the year ended 30 June 2013. These amounts have been calculated using the Group accounting policies.

(b) Purchase consideration - cash outflow	*2013 $'000*	*2012 $'000*
Consideration paid in cash	4,197	-
Less: cash and cash equivalent balances acquired	-	-
Outflow of cash - investing activities	4,197	-

Acquisition-related costs

The Group incurred acquisition-related costs of $22 thousand for external legal fees. The legal fees have been included in other expenses in the Group's statement of profit or loss.

39 EVENTS OCCURRING AFTER THE REPORTING PERIOD

There have been no matters or circumstances occurring subsequent to the end of the financial year end, 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 or economic entity in future financial years.

40 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	
	2013 $'000	*2012 $'000*
Cash and cash equivalents	67,368	39,710
Bank overdrafts	-	-
Balances per statement of cash flows	67,368	39,710

40 NOTES TO THE CASH FLOW STATEMENT (continued)

	Consolidated 2013 $'000	Consolidated 2012 $'000
(b) Reconciliation of net cash inflow from operating activities to profit		
Profit for the year	116,632	104,641
Depreciation and amortisation	33,232	30,754
Non-cash employee benefits expense - share-based payments	2,680	1,241
Net loss on sale of non-current assets	1,287	755
Impairment of plant and equipment	1,574	1,032
Fair value adjustment to derivatives	1,210	840
Change in operating assets and liabilities net of effects from acquisition of businesses:		
(Increase) decrease in inventories	4,518	(20,960)
(Increase) decrease in current receivables	(1,123)	(441)
(Increase) decrease in other current assets	1,648	956
(Increase) decrease in deferred tax balances	1,650	1,606
(Decrease) increase in current payables	(19,477)	98,948
(Decrease) increase in current provisions	5,294	1,338
(Decrease) increase in other current liabilities	368	673
(Decrease) increase in non-current provisions	(4,377)	(672)
(Decrease) increase in other non-current liabilities	736	1,804
(Decrease) increase in current tax liabilities	10,558	(7,508)
Net cash inflow from operating activities	156,410	215,007

41 FINANCIAL RISK MANAGEMENT

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

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

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

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

	Consolidated 2013 $'000	Consolidated 2012 $'000
Financial assets		
Cash and cash equivalents	67,368	39,710
Trade and other receivables	64,246	58,378
	131,614	98,088
Financial liabilities		
Trade and other payables	361,181	379,100
Bank loans	124,331	149,775
Interest rate swaps (net settled)	956	2,106
	486,468	530,981

41 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk

(i) Foreign exchange risk management

The majority of the Group's operations are denominated in the functional currency of the country of operation 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 forward interest rate 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 2013		30 June 2012	
Consolidated	Weighted average interest rate %	Balance $'000	*Weighted average interest rate %*	*Balance $'000*
Bank loans	5.68%	125,000	6.63%	150,000
Interest rate swaps (notional principal amount)	6.94%	(37,800)	6.87%	(58,800)
Net exposure to cash flow interest rate risk		87,200		91,200

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

41 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk (continued)

(iii) Summarised sensitivity analysis

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

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

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

		Interest rate risk			
		-50 bps		*+50 bps*	
Consolidated	*Carrying amount $'000*	*Profit $'000*	*Other equity $'000*	*Profit $'000*	*Other equity $'000*
30 June 2013					
Financial liabilities					
Interest rate swaps	956	(197)	(116)	197	116
Borrowings	124,331	463	-	(463)	-
Total increase/(decrease)		266	(116)	(266)	116

		Interest rate risk			
		-50 bps		*+50 bps*	
Consolidated	*Carrying amount $'000*	*Profit $'000*	*Other equity $'000*	*Profit $'000*	*Other equity $'000*
30 June 2012					
Financial liabilities					
Interest rate swaps	2,106	(353)	(305)	353	305
Borrowings	149,775	547	-	(547)	-
Total increase/(decrease)		194	(305)	(194)	305

(b) Liquidity risk

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

41 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Financing arrangements

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

	Consolidated 2013 $'000	Consolidated 2012 $'000
Unsecured bank overdraft facility[i]:		
amount used	-	-
amount unused	88,424	62,830
	88,424	62,830
Unsecured indemnity guarantees[i]:		
amount used	1,549	1,604
amount unused	151	96
	1,700	1,700
Unsecured bank loan facilities (term debt)[i]:		
amount used[ii]	125,000	150,000
amount unused	75,000	100,000
	200,000	250,000
Headroom in total borrowing facilities (excluding security indemnity guarantees)	163,424	162,830

(i) All amounts were secured in the 2012 year.

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

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.

2013	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	67,368	-	-	-	-	67,368	2.73%
Trade and other receivables	64,246	-	-	-	-	64,246	-
	131,614	-	-	-	-	131,614	
Financial liabilities							
Trade and other payables	361,182	-	-	-	-	361,182	-
Bank loans	3,551	3,551	7,102	132,102	-	146,306	5.68%
Interest rate swaps (net settled)	515	454	-	-	-	969	-
	365,248	4,005	7,102	132,102	-	508,457	

41 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Maturities of financial assets and financial liabilities (continued)

2012	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	39,710	-	-	-	-	39,710	3.94%
Trade and other receivables	58,378	-	-	-	-	58,378	-
	98,088	-	-	-	-	98,088	3.94%
Financial liabilities							
Trade and other payables	379,100	-	-	-	-	379,100	-
Bank loans	4,973	4,973	157,460	-	-	167,406	6.63%
Interest rate swaps (net settled)	622	705	840	-	-	2,167	-
	384,695	5,678	158,300	-	-	548,673	6.63%

(c) Credit risk management

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

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

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

(d) Fair value of financial instruments

The only financial 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.

42 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

The shareholder information set out below was applicable as at 5 August 2013.

A. Distribution of equity securities

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

	Ordinary shares		
Holding	*Total Holders*	*Units*	*% Issued Capital*
1 - 1,000	13,523	5,381,147	5.44
1,001 - 5,000	4,607	9,762,837	9.87
5,001 - 10,000	429	3,062,251	3.09
10,001 - 100,000	197	5,210,734	5.27
100,001 and over	36	75,530,340	76.33
	18,792	98,947,309	100.00

There were 281 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary shares	
Name	*Number held*	*% of issued shares*
1. NATIONAL NOMINEES LIMITED	23,669,743	23.92
2. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	15,664,611	15.83
3. J P MORGAN NOMINEES AUSTRALIA LIMITED	13,619,898	13.76
4. JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	4,489,885	4.54
5. BNP PARIBAS NOMS PTY LTD <DRP>	3,013,866	3.05
6. CITICORP NOMINEES PTY LIMITED	2,860,188	2.89
7. CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	2,750,836	2.78
8. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	1,549,309	1.57
9. AMP LIFE LIMITED	1,275,984	1.29
10. MR TERRY SMART	1,001,031	1.01
11. UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	707,711	0.72
12. SHAWVILLE PTY LTD	647,888	0.65
13. SHARE DIRECT NOMINEES PTY LTD <10026 A/C>	644,982	0.65
14. BNP PARIBAS NOMINEES PTY LTD ACF PENGANA <DRP A/C>	300,000	0.30
15. SUNCORP CUSTODIAN SERVICES PTY LIMITED <SGAEAT>	297,209	0.30
16. WARBONT NOMINEES PTY LTD <SETTLEMENT ENTREPOT A/C>	255,023	0.26
17. 3RD WAVE INVESTORS LTD	250,000	0.25
18. R F THOMPSON (QLD) PTY LTD <THOMPSON (QLD) FAM NO2 A/C>	215,079	0.22
19. THE AUSTRALIAN NATIONAL UNIVERSITY	200,000	0.20
20. JADESIDE PTY LTD <RJ BOURIS FAMILY A/C>	200,000	0.20
	73,613,243	74.39

C. Substantial holders

Substantial holders in the Company are set out below:

Ordinary shares	*Number held*	*Voting Power %*
Ausbil Dexia Limited	8,458,306	8.55
Westpac Banking Corporation	7,585,357	7.67
UBS AG	7,471,742	7.55
Unisuper	6,037,015	6.10
Integrity Investment Management	5,773,682	5.84
Vinva Investment Management	5,637,981	5.70
Macquarie Group Limited	5,610,470	5.67
Commonwealth Bank of Australia	5,115,765	5.17

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COMPANY SECRETARY

Doug Smith

SHARE REGISTRY

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

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

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

STORE LOCATIONS(i)

Australia

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

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

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

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

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

TAS
Hobart

NT
Berrimah
Casuarina

ACT
Belconnen
Canberra City
Fyshwick
Tuggeranong
Woden

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

(i) JB Hi-Fi unless otherwise stated (current as at 30 June 2013).

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