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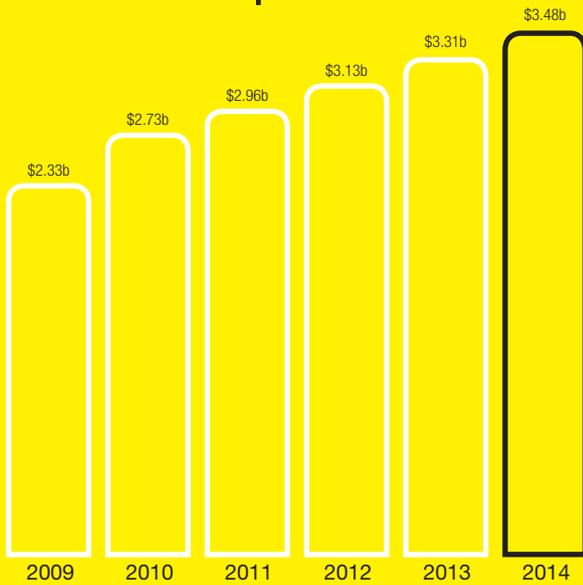
ANNUAL REPORT
2014

Financial Summary

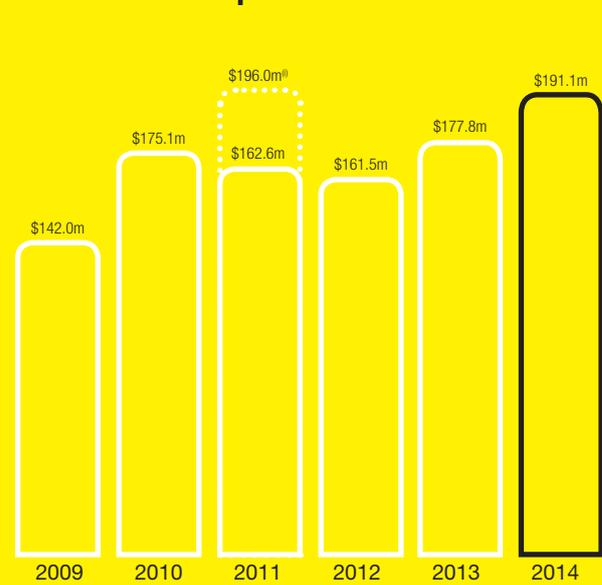
FINANCIAL PERFORMANCE

	2010 Statutory	2011 Normalised ⁽ⁱ⁾	2011 Statutory	2012 Statutory	2013 Statutory	2014 Statutory	Growth
Sales	\$2.73b	\$2.96b	\$2.96b	\$3.13b	\$3.31b	\$3.48b	5.3%
EBIT	\$175.1m	\$196.0m	\$162.6m	\$161.5m	\$177.8m	\$191.1m	7.5%
NPAT ⁽ⁱⁱ⁾	\$118.7m	\$134.4m	\$109.7m	\$104.6m	\$116.4m	\$128.4m	10.3%
Earnings per share	109.7cps	124.7cps	101.8cps	105.9cps	117.7cps	128.4cps	9.1%
Total dividend - fully franked	66.0cps	77.0cps	77.0cps	65.0cps	72.0cps	84.0cps	16.7%

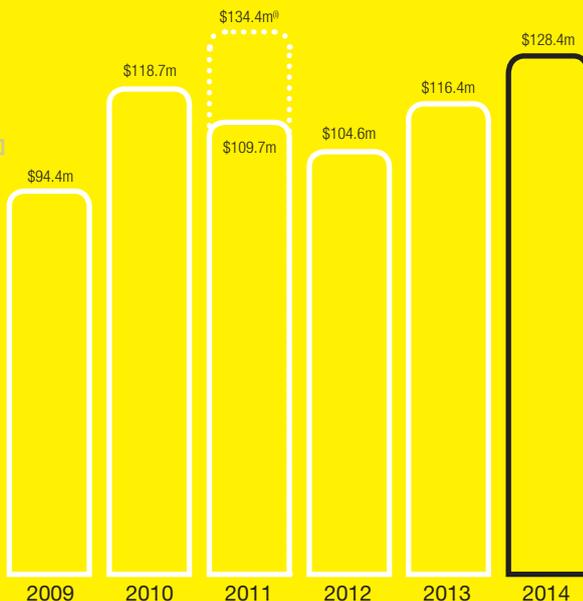
Sales \$3.48b



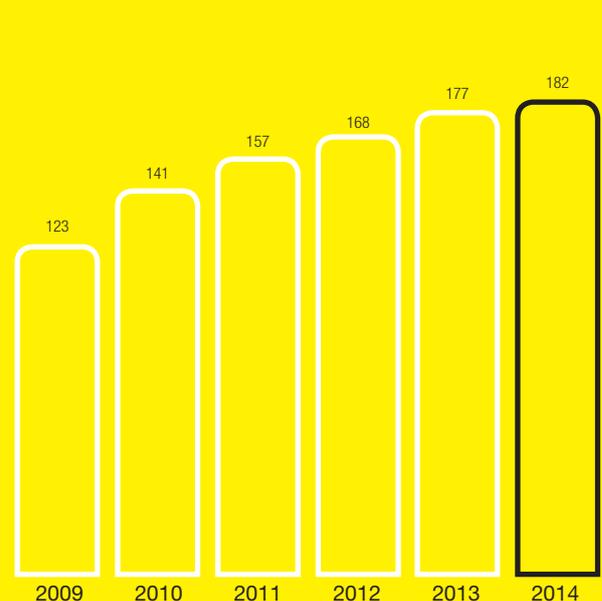
EBIT \$191.1m



NPAT⁽ⁱⁱ⁾ \$128.4m



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,

The year ended 30 June 2014 was a solid year for JB Hi-Fi Limited with sales, profits and dividends all up on the prior year. This result was driven by improved gross margins, ongoing cost control and our continued emphasis on customer service.

Overview

JB Hi-Fi Limited achieved sales of \$3.48 billion in FY14, with total sales growth of 5.3% and comparable sales growth of 2.0%. We achieved strong sales growth in the first three quarters of FY14 however sales in the last quarter were impacted primarily by the market-wide decline in tablet sales and weaker consumer sentiment from May 2014.

Gross margin improved 17 basis points to 21.7% (FY13: 21.5%). In Australia, the market remained very competitive which was consistent with the prior year. In New Zealand, gross margin improved, driven by our improved buying terms as we continued to gain market share.

At 15.2%, our low cost of doing business continues to be a competitive advantage and remains lower than our major listed competitors. Operating costs were in line with our expectations as we maintained our focus on productivity, while continuing to deliver the high standard of customer service that JB Hi-Fi is known for.

Net profit after tax was up 10.3% to \$128.4m, earnings per share was up 9.1% and the full year dividend was up 12.0 cents per share or 16.7% on the prior year to 84.0 cents per share.

The balance sheet continues to grow in strength with relatively low financial and operating leverage, evidenced by our solid fixed charges cover of 3.3 times, gearing of 0.8 and interest cover of 21.6 times.

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.

JB Hi-Fi has the ability to bring brands to life and create engagement in categories, both in store and out of store. We have a reputation for price leadership, a unique brand personality, a low cost operating model, highly productive floor space, a high traffic website, great people, loyal customers and the ability to adapt our model and innovate to ensure it remains current and relevant.

Our high energy, engaging and entertaining retail format ensures that we are the desired destination 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. Our online and commercial and education offers complement our store presence and provide customers with further choice on how they wish to shop with JB Hi-Fi.

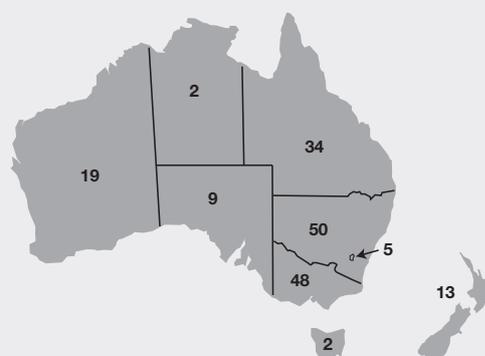
As always, our motivated, passionate and knowledgeable staff members continue to be one of our most important assets. A busy and enjoyable working environment means that JB Hi-Fi continues to attract and retain high calibre staff.

Stores

There were 182 stores (Australia: 147 JB Hi-Fi stores and 22 JB Hi-Fi HOME stores, NZ: 13 JB Hi-Fi stores) open as at 30 June 2014. During FY14, we opened seven new JB Hi-Fi stores and one new JB Hi-Fi HOME store, all in Australia. The final Clive Anthonys store and two JB Hi-Fi stores were closed during FY14. We expect to open a total of eight new stores in FY15 (4 JB Hi-Fi stores and 4 JB Hi-Fi HOME stores) and maintain our stated target of 214 stores across Australia and New Zealand.

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: 182*



* As at 30 June 2014

JB HI-FI HOME

JB HI-FI HOME represents a significant growth opportunity as we leverage the strength and trust in the JB HI-FI brand. The home appliances market is circa \$4.6 billion, larger than many of the other categories JB HI-FI currently operates in. As consumers embrace the "connected home" experience and appliances become a fashion statement within the home, we believe that it is the appropriate time to expand appliances in the JB HI-FI model.

We had 22 JB HI-FI HOME stores as at 30 June 2014, with one new JB HI-FI HOME store opened and 13 existing JB HI-FI stores converted to JB HI-FI HOME during FY14. In FY15, we anticipate opening four new JB HI-FI HOME stores and converting a further 26 existing JB HI-FI stores to the JB HI-FI HOME format, taking the total number of JB HI-FI HOME stores to 52 by the end of FY15. As previously announced, we see the potential for approximately 75 JB HI-FI HOME stores by the end of FY16, with the long term opportunity still to be fully quantified.

The JB HI-FI HOME expansion is one year ahead of our original expectations with results to date highlighting the opportunity for us to leverage the strength and trust in the JB HI-FI brand into the appliance categories. We continue to build support from suppliers and engagement with our customers and staff. As customers move towards the "connected home", JB HI-FI will continue to be seen as the destination for expert advice from our passionate and knowledgeable staff.

Out of Store

Online sales were up 13.9% in FY14, and represent approximately 2.2% of total sales (FY13: 2.0%). The popularity of JB HI-FI's websites continues to grow with unique visitors to the websites increasing by 9.9% over the previous 12 months to an average of 1.3 million per week.

On 1 July 2014 we launched a new website which offers an enhanced customer experience with improved search functionality, richer product information and responsive design. Our websites, including the JB HI-FI NOW digital offering, provide customers with a choice on how they wish to shop at JB HI-FI, for both physical goods and digital content.

JB HI-FI's Commercial division continued to see strong growth in FY14 and remains on track to deliver on our longer term aspirational sales target of \$500m per annum, through both organic growth and strategic acquisitions.

To support the expansion of JB HI-FI HOME and our ongoing growth in both Commercial sales and large format TVs, we are developing a low cost, fit-for-purpose supply chain and logistics strategy with facilities recently opened in Melbourne, Sydney and Brisbane.

Richard Murray succeeds Terry Smart as CEO

Terry Smart retired in June 2014 and was succeeded by Richard Murray. Terry was a critical part of JB HI-FI's success over the past 14 years and had been CEO since 2010. As CEO, Terry grew both revenue and earnings during some of the most challenging and unpredictable years in the retail industry. He continued to drive the successful store roll-out program and took JB HI-FI into the home appliance market with the launch and growth of the JB HI-FI HOME stores. Terry also reinforced JB HI-FI's strong online presence and oversaw the launch of the JB HI-FI NOW digital platform.

The Board thanks Terry for his outstanding contribution to JB HI-FI over the past 14 years, particularly whilst he was CEO, and wishes him all the best for the future.

Richard Murray joined JB HI-FI as CFO and Company Secretary in 2003 and took the business through the Initial Public Offer that year. He was appointed to the Board as an Executive Director in June 2012. During his time with JB HI-FI, Richard has been a key member of the Executive team. In addition to his role as CFO, more recently Richard has led the growth in JB HI-FI's Commercial division.

The Board is delighted to have made an appointment of the calibre of Richard from within our own ranks and we look forward to him putting his own stamp on JB HI-FI while continuing with the current strategy.

Board and Management Approach

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

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

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, 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.

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.

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 almost \$1.5 million has been raised and, since its inception, JB HI-FI and its employees are proud to have raised more than \$5.6 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 JB HI-FI's charity partners. This year over \$88,000 has been collected and, since inception, the program has raised over \$380,000, showing the generosity of customers and employees.

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

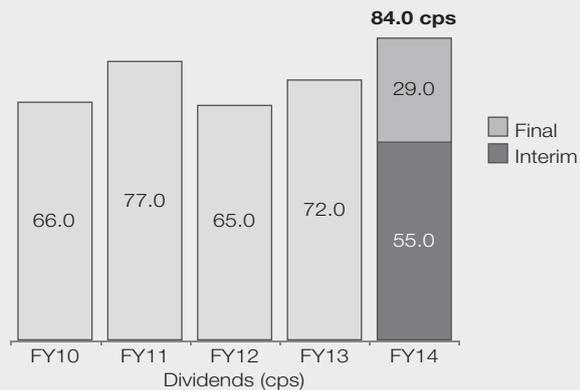
Capital Management

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

In June 2014 we completed an on-market buy-back of 1.4 million ordinary shares (at a cost of \$25.8 million) to offset the dilutionary impact of shares issued to employees under JB HI-FI's share option plans in FY14.

Similarly, on 11 August 2014 we announced our intention to neutralise the impact of shares issued during August and September 2014 via an on-market buy-back to commence on 8 September 2014.

The Board has increased the full year dividend payout ratio to 65% and, as a result, has declared a final dividend of 29.0 cents per share fully franked, taking the total dividend for the year to 84.0 cents per share (FY13: 72.0 cents per share). The Board currently believes a dividend payout ratio of 65% appropriately balances the distribution of profit to shareholders and the reinvestment of earnings for future growth.



Outlook

FY15 provides significant opportunities for JB HI-FI including the JB HI-FI HOME roll-out, the continuation of our new store roll-out program, the expansion of our Commercial division and the opportunities created both in store and out of store by our new website. These opportunities, combined with the maturation of the 21 stores opened over the past two years and an exciting new product outlook, will drive sales and earnings growth.

In FY15 we expect:

- to open eight new stores, with five opening in the first half;
- to convert 26 existing stores to JB HI-FI HOME, with 17 to be converted in the first half; and
- total sales of circa \$3.6 billion.

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 FY15.

Greg Richards
Chairman

Richard Murray
Chief Executive Officer

Melbourne,
22 August 2014

Annual Report

for the financial year ended **30 June 2014**

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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 2nd edition of 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 2014 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 will consider and adopt the most appropriate search process for identifying and evaluating likely additional directors, which may include using external search organisations where appropriate.

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 six directors, comprising five non-executive directors, including the Chairman, and one executive director (being the Chief Executive 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 Company's Board Composition & Succession Policy, which includes the procedure for the selection and appointment of directors, can be found on the Company's website at www.jbhifi.com.au via the "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. The independence of each director is considered on a case-by-case basis.

JB Hi-Fi considers that each of the directors is independent with the exception of Richard Murray, by virtue of his role as the Chief Executive Officer.

Gary Levin and James King have each been non-executive directors of the Company for over 10 years and have a deep understanding of the Company and its business. The Board has considered their independence, including in view of their length of tenure as directors of the Company. The Board is of the opinion that, notwithstanding their length of service, both Gary and James remain independent and continue to provide valuable input to the Board. The Board does not believe that either director has formed associations with management (or other stakeholders) that might materially interfere with or compromise their respective abilities to exercise independent, unfettered judgement or act in the best interests of the Company.

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

Conflict of Interest

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

Board meetings

The Board meets regularly, dependent on business requirements. Prior to any meeting, the directors receive all necessary Board papers. As well as holding regular Board meetings, the Board 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:

- oversight of the reliability and integrity of the Company's financial management, financial reporting and disclosure, and related non-financial reporting and disclosure practices;
- oversight of the independence, performance, appointment and removal of the external auditor; and
- review of the Company's policies on risk oversight and management, and in discharging its responsibility to satisfy itself that 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 2014 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 2014 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 2014 financial year, 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 2014 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 Composition & Succession Policy 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 2014 the proportion of women engaged by JB Hi-Fi was as follows:

- Board: 14% being 1 of 7 directors (2013: 14%, and as from 1 July 2014, 17%, being 1 of 6 directors)
- Senior Management/Executive (excluding executive directors): 4% being 1 of 23 employees (2013: 5%). For these purposes, Senior Management/Executive means:
 - the 5 executives listed on page 32 of this Report excluding those who are, or were, executive directors; and
 - the 18 next most senior managers of the Company, each of whom reports to one of these executives or an executive director.
- Group: 39% being 2,788 of 7,081 employees (2013: 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	<i>June 2014</i>	<i>June 2013</i>	<i>June 2012</i>
To improve the percentage of female to male commissioned sales staff over each of the next 3 years	21%	21%*	21%*
To improve the percentage of female to male store managers over the next 3 years	10%	11%	11%
To improve the percentage of female to male regional managers over the next 3 years	0%	0%	0%
To increase the percentage of female senior managers over the next 3 years	4%	5%	9.5%

* In the 2012 and 2013 Annual Reports the disclosures showed the percentage of female to male sales staff (including commissioned and non-commissioned), being 43% (2013) and 41% (2012), instead of female to male commissioned sales staff. As at June 2014, the percentage of female to male sales staff (including commissioned and non-commissioned) was 43%.

At the time of setting these objectives the Board established action plans for achieving the objectives including the following:

- 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;
- 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.

The Board noted at the time of setting the objectives that one of the challenges faced by the Group in terms of diversity was the relatively low level of turnover in positions such as regional and senior management roles with the vast majority of these positions being occupied by long serving male employees of the Group. The existence of stable senior and regional management teams, in the context of a historically male-dominated consumer electronics industry, has posed challenges for achieving change in the short-term. The Board therefore considered 3 year targets to be realistic in terms of achieving the desired improvements.

The Board and the new Chief Executive Officer recognise that the actions taken to date have not been as effective as intended in achieving the Company's gender diversity objectives. The Board and Management, led by the new Chief Executive Officer, are therefore undertaking a thorough review of these gender diversity objectives and revisiting the plans for achieving them. This will take place during FY2015 with reporting on revised objectives, plans and progress towards achieving them to be included in the 2015 Annual Report. Quarterly reports on the progress towards achieving the objectives will be provided by management to the Board going forward.

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). Directors and executives are required to obtain the Chairman's consent to any such trading in advance and any transaction conducted by directors in shares of the Company is notified to the ASX.

A copy of the Securities Trading Policy can be found on the Company's website at www.jbhi-fi.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 relevant regulatory requirements.

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 2014) 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. Deloitte has been the Company's external auditor since 2002. The audit engagement partner is rotated every five years.

Information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners can be found in the Charter of the Audit and Risk Management Committee on the Company's website at www.jbhifi.com.au via the "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 holds its Annual General Meeting in Melbourne, to which all shareholders are invited. Shareholders who are unable to attend can appoint a proxy to attend and vote or, alternatively, can vote electronically in advance of the Meeting. The Company ensures that the external auditor attends its Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

RISK IDENTIFICATION AND MANAGEMENT

The 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. Management has designed and implemented a risk management and internal control system to manage the Company's material risks. The Company does not have an internal audit function but has a dedicated risk management team. The risk management team employs a systematic approach to identifying risk and implementing processes to manage that risk as documented in a Risk Framework which is regularly reviewed and revised with input from the Audit and Risk Management Committee and senior management and approved by the Board.

The Audit and Risk Management Committee and senior management continually evaluate and seek to improve the effectiveness of the Company's risk management and internal control processes.

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 2014) are operating effectively in all material respects based on the risk management framework adopted by the consolidated entity; and
- subsequent to 30 June 2014, 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 2014 financial year.

DIRECTORS' FEES AND EXECUTIVE REMUNERATION

Directors' fees

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

Executive remuneration

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

ENVIRONMENTAL STATEMENT

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

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

Australian Packaging Covenant

JB Hi-Fi is a signatory to the Australian Packaging Covenant. This is a voluntary program involving both Government and industry to ensure the environmental impact from packaging is reduced, measured and understood. JB Hi-Fi is committed to the principles of the Australian Packaging Covenant and reports annually to the Australian Packaging Covenant Council.

Mobile Phone Recycling and Re-use

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. In addition, during 2014, JB Hi-Fi launched a phone trade in program which reduces the number of mobile phones entering landfill.

Cartridges 4 Planet Ark

JB Hi-Fi launched Cartridges 4 Planet Ark in stores in 2010. This program enables consumers to drop used printer cartridges at JB Hi-Fi stores, where they are collected and returned for recycling and remanufacturing, ensuring landfill is avoided. Since the commencement of the program over 64,000 cartridges have been recycled.

Store recycling initiatives

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

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.

Support Office

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

SOCIAL STATEMENT

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

The Helping Hands program in Australia involves over 3,500 employees or approximately 53% of total JB Hi-Fi Australia staff, each making weekly contributions. 100% of non-executive directors, executives and senior management participate in this program. This year almost \$1,500,000 has been raised and since its inception, the Company and its employees are proud to have raised more than \$5,600,000.

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

Helping Hands – New Zealand

The Helping Hands program was launched in New Zealand in May 2012 and involves over 120 employees or approximately 30% of JB Hi-Fi New Zealand staff making weekly contributions. This year \$47,000 has been raised and since its inception over \$90,000 has been raised. The current charity partners in New Zealand are ShelterBox, Kenzies Gift, Forest and Bird, Youthline and Plunket.

“Change for Change” – Donation Boxes in our Stores

The Helping Hands program has driven the placement of “Change for Change” boxes in all stores across Australia and New Zealand. These boxes have been placed at point of sale locations to encourage donations from our customers. All donations collected are shared evenly amongst the Company's charity partners. This year over \$75,000 has been collected in Australia, and since inception the program has raised over \$380,000. New Zealand, in the first full year of having the boxes in place during 2014, raised over \$15,000.

“Employer Leadership Group” – Founding Partner

Part of JB Hi-Fi's commitment to growing workplace giving in Australia and New Zealand is the Company's belief that this 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 Group” (ELG) that was launched in October 2010. ELG 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 ELG 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. In 2010 JB Hi-Fi committed to contribute \$25,000 per annum to ELG for three years. The Company has recently renewed this commitment until 2016 and Richard Murray has taken on the role of inaugural Chair of ELG.

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 2014. In order to comply with the provisions of the Corporations Act 2001, the Directors' Report as follows:

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

<i>Name</i>	<i>Particulars</i>
<p>Mr Greg Richards Chairman Non-Executive Director B.Ec (Hons)</p>	<p>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.</p>
<p>Mr James King Non-Executive Director B.Comm, FAICD</p>	<p>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 and Pacific Brands Ltd. James is also a past Chairman of Juvenile Diabetes Research Foundation (Victoria) and a member of the Council of Xavier College. James is a Fellow of the Australian Institute of Company Directors. James was appointed to the Board in May 2004 and was Chairman from March 2006 until September 2007. James is a member of the Audit and Risk Management Committee and the Remuneration Committee.</p>
<p>Ms Beth Laughton Non-Executive Director B.Ec, FAICD, FCA</p>	<p>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 and Risk & Compliance 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 Company's Audit and Risk Management Committee.</p>
<p>Mr Gary Levin Non-Executive Director B.Comm, LLB</p>	<p>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 of JB Hi-Fi since listing in 2003 and for the 3 years prior to that, and is also a member of the Remuneration Committee and the Audit and Risk Management Committee.</p>
<p>Mr Richard Uechtritz Non-Executive Director</p>	<p>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 re-joined the Board in April 2011 as a non-executive director. He is also a non-executive director of Seven Group Holdings Limited.</p>

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

Richard became Chief Executive Officer on 1 July 2014 having been appointed to the Board in June 2012. Richard joined JB Hi-Fi as Chief Financial Officer in 2003.

Mr Terry Smart
Chief Executive Officer
and Executive Director
(retired 30 June 2014)

Terry joined the management buy-in of JB Hi-Fi in July 2000 as Operations and Finance Director and was CEO from May 2010 until his retirement on 30 June 2014.

Except where specified otherwise, 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 & England
& Wales.

Doug was appointed Company Secretary in June 2012. Doug joined JB Hi-Fi as General Counsel in September 2010 and has over 20 years' legal 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:

<i>Name</i>	<i>Company</i>	<i>Period of Directorship</i>
James King	Navitas Limited	Since November 2004
	Pacific Brands Limited	Since September 2009
	Trust Company Limited	February 2007 to December 2013
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, software including music, games and movies, and appliances.

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

Operating and Financial Review

The Operating and Financial Review, which forms part of this Directors' Report, is presented separately on pages 19 to 27.

Changes in state of affairs

Executive

The Company's Chief Executive Officer, Terry Smart, retired on 30 June 2014. Richard Murray, previously the Group's Chief Financial Officer, was appointed CEO and Nick Wells, previously the Group Financial Controller, was appointed as CFO.

Capital Management

Between 26 May 2014 and 17 June 2014 the Company purchased 1,438,091 shares pursuant to an on-market buy-back in order to offset the dilutionary impact of the 1,438,091 shares issued in FY2014 pursuant to the exercise of employee share options. The cost to the Company of purchasing these shares was \$25,830,000. The highest price paid by the Company was \$18.53 and the lowest price paid by the Company was \$17.57.

Acquisitions

In November 2013, the Group acquired the remaining 49% interest in the "Network Neighborhood" business, having acquired 51% in February 2013. The business provides information technology and consulting services and hardware sales to the education and commercial sectors.

Further detail is included in the Operating and Financial Review.

Subsequent events

On 11 August 2014, the Company announced that it would conduct an on-market buy-back in order to offset the dilutionary impact of shares to be issued in August and September 2014 pursuant to the exercise of employee share options. The maximum number of shares that will be purchased is 645,765 and the buy-back is scheduled to commence in September 2014.

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

Future developments

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

Environmental regulations

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

Dividends

In respect of the financial year ended 30 June 2013, as detailed in the Directors' Report for that financial year, an interim dividend of 50.0 cents per share and a final dividend of 22.0 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 8 March 2013 and 6 September 2013 respectively.

In respect of the financial year ended 30 June 2014, an interim dividend of 55.0 cents per share was paid to the holders of fully paid ordinary shares on 28 February 2014 and the directors have declared the payment of a final dividend of 29.0 cents per share, to be paid to the holders of fully paid ordinary shares on 5 September 2014. Both dividends are franked to 100% at the 30% corporate income tax rate. The total dividend for the financial year of 84.0 cents per share represents a payout ratio of just over 65% 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 by an officer or auditor.

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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, 16 Board meetings, 7 Remuneration Committee meetings and 7 Audit and Risk Management Committee meetings were held.

Directors	Board of Directors		Remuneration Committee		Audit and Risk Management Committee	
	Held	Attended	Held	Attended	Held	Attended
G. Richards	16	16	7	7	–	–
J. King	16	16	7	7	7	7
B. Laughton	16	16	–	–	7	7
G. Levin	16	16	7	7	7	7
R. Uechtritz	16	16	–	–	–	–
T. Smart	16	16	–	–	–	–
R. Murray	16	16	–	–	–	–

Directors' shareholdings

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

Directors	Fully paid ordinary shares			Executive share options		
	Direct number	Indirect number	Total	Direct number	Indirect number	Total
G. Richards	3,000	20,000	23,000	–	–	–
J. King	32,258	–	32,258	–	–	–
B. Laughton	500	–	500	–	–	–
G. Levin	30,000	–	30,000	–	–	–
R. Uechtritz	10,000	–	10,000	–	–	–
R. Murray ⁽ⁱ⁾	100,000	2,000	102,000	311,640	–	311,640

(i) Excludes any options that may be granted by the Board in August 2014. The issue of any such options to R. Murray, the executive director of the Company, is also subject to shareholder approval at the Company's Annual General Meeting in October 2014.

Remuneration Report

The Remuneration Report, which forms part of this Directors' Report, is presented separately on pages 28 to 57.

Proceedings on behalf of the Company

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

Non-audit services

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

The directors have not engaged the auditor to provide any non-audit services in the 2014 financial year.

Auditor's independence declaration

The auditor's independence declaration is included on page 58 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

Melbourne,
11 August 2014



Richard Murray
Chief Executive Officer

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OPERATING AND FINANCIAL REVIEW

OVERVIEW OF OPERATIONS

The Group sells consumer electronics products in Australia and New Zealand 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. 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 offer and its JB Hi-Fi Now digital content platform. Further detail is set out below.

As at 30 June 2014 the Group operated the following sales channels:

- "JB Hi-Fi" – 160 physical stores and an online store;
- "JB Hi-Fi Home" – 22 physical stores and an online store;
- "JB Hi-Fi Now" – online digital content platform; and
- "JB Hi-Fi Commercial & Education" (including JB Hi-Fi Education Solutions (formerly "Network Neighborhood")) – selling products and services to the commercial and education sectors, including insurance replacements.

FINANCIAL PERFORMANCE – HIGHLIGHTS

	<i>FY14</i>	<i>FY13</i>	<i>Mvt</i>
Total Sales	\$3,483.78m	\$3,308.40m	+5.3%
Gross Margin	21.70%	21.53%	+17 bps
Cost of Doing Business ("CODB")	15.19%	15.10%	+9 bps
Earnings Before Interest and Tax ("EBIT")	\$191.12m	\$177.75m	+7.5%
EBIT Margin	5.49%	5.37%	+11 bps
Net Profit After Tax ("NPAT") ¹	\$128.36m	\$116.38m	+10.3%
Earnings per share ("EPS")	128.4 cps	117.7 cps	+9.1%
Total dividend - fully franked ²	84.0 cps	72.0 cps	+16.7%

¹ Profit attributable to owners of JB Hi-Fi Limited.

² The final FY2014 dividend is 29.0 cents per share, to be paid on 5 September 2014 (record date 22 August 2014). The full year dividend of 84.0 cents per share represents a payout ratio of just over 65% of FY2014 earnings.

SALES PERFORMANCE

Total sales were up 5.3% to \$3,483.78 million (2013: \$3,308.40 million) and comparable sales growth was 2.0% (Australia: 1.3%, New Zealand: 0.8%).¹

Significant factors in the sales performance were as follows:

Australia¹

- Sales grew by 4.8% to \$3,292.8 million primarily as a result of the rollout of JB Hi-Fi Home branded stores, the opening of new stores, the maturing of stores opened in previous years, and the growth of Commercial & Education and Online.
- In the second half of FY2014, total sales were up 2.7% and comparable sales growth was 0.1%. Comparable sales growth in the second half of FY2014 was impacted primarily by the market wide decline in the tablet category in the final quarter of FY2014 and weaker consumer sentiment since May 2014.
- By value, sales were split between hardware at 81.3% and software at 18.7% (FY2013: 78.5%/21.5%). Hardware is defined as all sales excluding music, movies and games software categories.
- Hardware sales were up 8.6% for the financial year with comparable sales up 4.9% driven by growth across the majority of categories.
- Software sales (music, movies and games) were -8.8% and, on a comparable basis, -11.7%.

¹ Comparable sales exclude Clive Anthonys (1 store from 1 July 2013 – September 2013)

New Zealand

- Total sales grew by 0.9% to NZ\$211.4 million.
- Comparable sales growth was 0.8%.
- In the second half of FY2014, total sales grew by 1.5% and comparable sales growth was 1.5%.

GROSS MARGIN

Gross margin was 21.70% for the period, up 17 bps from the previous financial year.

Significant factors in the gross margin performance were as follows:

- The market remained very competitive, consistent with the prior comparative period.
- In Australia, the gross margin in FY2014 increased by 18 bps to 21.91%.
- In New Zealand, gross margin increased by 33 bps to 18.03% due to improved buying terms as the Company continues to gain market share.

COST OF DOING BUSINESS

Cost of doing business ("CODB") was 15.19% for the period, up 9 bps from cost of doing business of 15.10% in the previous financial year. Despite the increase, JB Hi-Fi still has the lowest CODB of the major listed retailers in Australia. The Group maintains its low CODB through continued focus on productivity.

Significant factors in the CODB performance were as follows:

- In Australia, CODB increased by 10 bps to 15.18%.
- Store wages remain well controlled.
- In New Zealand, overall costs continue to be well controlled with CODB flat at 15.39%.

EARNINGS

EBIT was up 7.5% to \$191.12 million from EBIT of \$177.75 million in the previous financial year and the resulting EBIT margin was 5.49%, up 11 bps from EBIT margin of 5.37% in the previous financial year.

Significant factors in EBIT performance were as follows:

- In Australia, EBIT was up 7.1% to \$188.31 million and EBIT margin was up 12 bps from 5.60% in the previous financial year to 5.72%.
- In New Zealand, EBIT was up 34.7% to NZ\$3.11 million and EBIT margin was up 37 bps from 1.10% in the previous financial year to 1.47%.

Net profit after tax was up 10.3% to \$128.4 million. Earnings per share were up 9.1% from 117.7 cps to 128.4 cps. Going forward, the Group expects growth in net profit after tax to more closely align with growth in earnings per share, given that the Group anticipates neutralising the impact of shares issued under its employee share option plans via regular on-market buy-backs.

Net interest expense in FY2014 was down \$1.3 million, driven primarily by a lower interest rate environment.

The effective tax rate in FY2014 was 29.7%, down from 30.6% in FY2013, driven primarily by the exercise of 1.4 million employee share options during FY2014 (0.1m in FY2013).

CAPITAL MANAGEMENT & DIVIDENDS

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

Between 26 May 2014 and 17 June 2014, the Company undertook an on-market buy-back of 1,438,091 ordinary shares (representing approximately 1.4% of the total issued share capital of the Company) at a cost of \$25,830,000, in order to offset the dilutionary impact of the ordinary shares issued to employees under the Company's share option plans during FY2014. The highest price paid by the Company for shares as part of the on-market buy-back was \$18.53 on 27 May 2014, and the lowest price paid by the Company for shares as part of the on-market buy-back was \$17.57 on 12 June 2014.

On 11 August 2014 the Group announced its intention to neutralise the impact of ordinary shares issued under the Company's employee share option plans during August and September 2014. This will be done via an on-market buy-back of ordinary shares, to commence on 8 September 2014.

The total dividend for the 2014 financial year of 84.0 cents per share represents a payout ratio of just over 65% of the full year earnings, an increase in the dividend payout from 60% in the previous financial year. The Board currently believes a 65% dividend payout ratio appropriately balances the distribution of profit to shareholders and reinvestment for future growth. The final dividend for the 2014 financial year of 29.0 cents per share fully franked will be paid on 5 September 2014 with a record date of 22 August 2014. The final dividend for the 2014 financial year factors in that the interim dividend of 55.0 cents per share represented a payout ratio of approximately 60% of earnings for the first half of the 2014 financial year (with the result that the total dividend for the 2014 financial year reflects the 65% payout ratio).

FINANCIAL POSITION

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

- The Group's term debt facility of \$200.0 million expires in June 2016. The Group's overdraft facilities of \$80.0 million and NZ\$10.0 million are renewable annually. The Group also has an additional seasonal bank overdraft facility of \$50.0 million in February to April and November each year.
- At the end of the financial year the Group had total interest bearing liabilities of \$180 million.
- Net debt increased from \$56.96 million to \$136.21 million due primarily to the timing of year end creditor payments in the prior year and the on-market buy-back referred to above, but remained in line with internal expectations.
- 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 1,438,091 ordinary shares were issued to employees under the Company's share option plans. Between 26 May 2014 and 17 June 2014, the Company undertook an on-market buy-back to neutralise the issue of these shares; further detail is set out above.

INVESTMENTS FOR FUTURE PERFORMANCE

Net cash outflow on investing activities was \$38.24 million, down from \$38.30 million in the prior year. Investing activities comprise Capital expenditure and Acquisitions as set out below.

Capital expenditure

Investments of \$35.91 million were made during the financial year in capital expenditure projects, an increase of \$0.60 million from \$35.31 million during the previous financial year. Of this capital expenditure:

- \$9.5 million related to the 7 new JB Hi-Fi stores opened during the 2014 financial year;
- \$13.9 million related to the 1 new JB Hi-Fi Home store opened and the conversion of 13 existing JB Hi-Fi stores to JB Hi-Fi Home stores during the 2014 financial year;
- \$7.8 million related to store relocations, the completion of stores opened during the 2013 financial year, and the upgrade/ refurbishment of existing stores (excluding JB Hi-Fi Home); and
- the remainder related to online and digital projects, support office and miscellaneous expenditure.

Acquisitions

During the 2014 financial year, the Group acquired the remaining 49% interest in the Network Neighborhood business that it did not previously own, at a cost of \$5.4 million. \$3.0 million of the total \$5.4 million consideration was paid in the 2014 financial year, and the remaining \$2.4 million has been paid in the 2015 financial year. Further detail about this business, which has recently been renamed JB Hi-Fi Education Solutions, is set out elsewhere in this Operating and Financial Review.

The acquisition of the remaining 49% interest in the Network Neighborhood business and the capital expenditure outlined above is anticipated to contribute towards earnings growth in the 2015 financial year and beyond.

WORKING CAPITAL

The Company proactively manages its inventory and achieved solid results in FY2014, with:

- increased inventory turnover (in total and in like for like stores); and
- decreased average inventory levels in existing categories within like for like stores (excluding the impact of JB Hi-Fi Home and the investment in private label stock).

Total inventory on hand increased from the previous financial year by \$32.6 million, driven primarily by the Company's investment in inventory for new stores, JB Hi-Fi Home and private label stock, but offset by the reduction in other inventory in existing stores and by store closures. Inventory turnover was 6.2 times (FY2013: 6.1 times) and like for like inventory turnover was 6.6 times (FY2013: 6.5 times).

Creditor days remained in line with internal expectations, decreasing 9.2 days on the previous financial year to 46.2 days, with total creditors decreasing by \$84.0 million to \$303.0 million. The FY2012 and 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. In FY2014 year-end fell on a weekday and therefore year end creditor payments were made in FY2014. The impact of this timing difference at the end of FY2012 and FY2013 was \$82.0 million and \$94.0 million respectively.

Financial and operating leverage remains low and is evidenced by solid fixed charges cover of 3.3 times (FY2013: 3.2 times) and interest cover of 21.6 times (FY2013: 17.5 times). The Company's gearing ratio is 0.78 (FY2013: 0.58).

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 2014, the Group had 182 physical stores (Australia: 169, New Zealand: 13). During the 2014 financial year, the Group opened 7 new JB Hi-Fi stores and 1 new JB Hi-Fi Home store in Australia and closed 2 JB Hi-Fi stores and the final Clive Anthonyms store. The Group re-branded 13 stores as JB Hi-Fi Home stores during FY2014. Since the end of FY2014, the Group has opened one new JB Hi-Fi Home store in July 2014 and rebranded 2 further stores as JB Hi-Fi Home stores in August 2014.

The new stores opened in FY2014 were as follows:

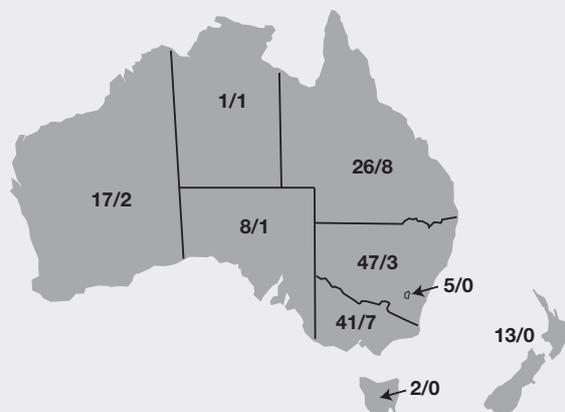
- VIC: Melton, Craigieburn
- NSW: Roselands, Castle Towers, Homebush (JB Hi-Fi Home)
- QLD: Indooroopilly
- WA: Ocean Keys
- TAS: Rosny Park

The stores re-branded as JB Hi-Fi Home stores during FY2014 were as follows:

- VIC: Frankston, Maribyrnong, Essendon, Cranbourne, Brighton, Narre Warren, Chirside Park
- NSW: Erina
- QLD: Morayfield
- WA: Midland Central, Bunbury
- SA: Gepps Cross
- NT: Berrimah

The store movements during FY2014 and the store locations as at 30 June 2014 are set out below.

	FY13	FY14			Total
		Opened	Converted	Closed	
Australia					
JB Hi-Fi	155	7	(13)	(2)	147
JB Hi-Fi HOME	8	1	13	-	22
	163	8	-	(2)	169
Clive Anthonys	1	-	-	(1)	-
	164	8	-	(3)	169
New Zealand					
JB Hi-Fi	13	-	-	-	13
TOTAL	177	8	-	(3)	182
Store type:					
JB Hi-Fi	168	7	(13)	(2)	160
JB Hi-Fi HOME	8	1	13	-	22
	176	8	-	(2)	182
Store format:					
Shopping centres	92	7	-	-	99
Other	85	1	-	(3)	83
	177	8	-	(3)	182



JB HI-FI (160)/HOME (22)

ONLINE

The Group continues to leverage the benefits of its strong online presence combined with its bricks and mortar locations. The Group's goal is to create a "seamless customer experience" whereby its online sites, combined with its physical locations, provide customers with a choice as to how they wish to shop with JB Hi-Fi.

In FY2014, online sales grew 13.9% on the previous financial year to \$75.0 million or approximately 2.2% of sales (FY2013: 2.0%). The popularity of JB Hi-Fi's websites continues to grow with unique visitations to the websites increasing 9.9% over the previous financial year to an average of 1.3 million per week.

A new JB Hi-Fi website (www.jbhihi.com.au) was launched on 1 July 2014, offering an enhanced customer experience with improved search functionality, richer product information and responsive design.

DIGITAL

The Group's device-agnostic digital offering (JB Hi-Fi Now) provides customers access to digital content anywhere, anytime and also allows JB Hi-Fi to both stay relevant and follow consumers' present and future content consumption behaviour and to stay engaged with its customers after a physical purchase has been made.

COMMERCIAL & EDUCATION

The Company has continued to see strong growth in JB Hi-Fi Commercial & Education, which remains on track to deliver on its longer term aspirational sales target of approximately \$500m per annum, through both organic growth and strategic acquisitions. JB Hi-Fi Commercial & Education's four divisions (Business Products division, Education division, Insurance Services division and Business Telco division) provide an integrated offer (product and services) to business and education clients across Australia.

In November 2013, the Company acquired the remaining 49% interest in the Victorian based "Network Neighborhood" business, which provides information technology and consulting services and hardware sales to the education and commercial sectors. The business is a key component of the Company's plan to provide an integrated offer of both products and services.

JB HI-FI HOME

The Group's JB Hi-Fi Home branded stores leverage the strength and trust in the JB Hi-Fi brand and offer a full range of JB Hi-Fi traditional categories with the addition of whitegoods, cooking and small appliances. JB Hi-Fi Home represents a significant sales growth opportunity as JB Hi-Fi grows its share of the circa \$4.6 billion per annum home appliance market. JB Hi-Fi sees the introduction of these product categories as a logical extension to its current entertainment categories.

With a total of 22 JB Hi-Fi Home branded stores as at 30 June 2014, the Group's rollout of JB Hi-Fi Home branded stores is 1 year ahead of its original schedule. During FY2014, the Group invested \$13.9 million in the conversion of 13 existing stores to JB Hi-Fi Home branded stores and the opening of one new JB Hi-Fi Home branded store (all in Australia). The Group is taking the opportunity to refresh the existing stores as they are converted to JB Hi-Fi Home stores. As a result, the Group estimates capital expenditure per JB Hi-Fi Home conversion at approximately \$0.9 million per store, with capital expenditure for a new JB Hi-Fi Home store at approximately \$1.8 million.

The Company anticipates opening 4 new JB Hi-Fi Home stores and converting 26 additional existing stores to the JB Hi-Fi Home brand in FY2015 (17 during the first half of FY2015, including 2 already converted in August 2014), with a total of 52 JB Hi-Fi Home stores expected by the end of FY2015. The Company sees the potential for approximately 75 JB Hi-Fi Home stores by the end of FY2016, with the long term opportunity still to be fully quantified and being 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:

- the converted JB Hi-Fi Home stores achieved comparable sales growth of 10.6% in FY2014 post conversion; and
- results to date suggest annualised incremental sales per store of circa \$3 million in the first year post conversion and increasing to circa \$5 million in the second year.

JB Hi-Fi Home is expected to have a positive sales mix impact, with medium term gross margins for appliances anticipated to be above the Group's average.

The JB Hi-Fi Home product categories also represent a good online sales growth opportunity.

SUPPLY CHAIN

To support the rollout of JB Hi-Fi Home branded stores, the growth of JB Hi-Fi Commercial and Education and the growth in large format TVs the Group is developing a low cost, fit-for-purpose supply chain and logistics strategy with facilities recently opened in Melbourne, Sydney and Brisbane. In other states and regional centres where facilities are not currently economic, the rollout of JB Hi-Fi Home branded stores allows for expanded back-of-house storage areas.

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 FY2014.

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.
- Reputation for taking the deal and price leadership.
- 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. The busy and enjoyable working environment means that the Group continues to attract and retain high calibre staff.
- High levels of customer service.
- The model is constantly innovating to ensure that it remains current and relevant to its customers. The Group has a culture of embracing change, which is seen as a “natural” part of the business.
- Ability to enter and grow new markets.
- Stores located in high foot traffic precincts which allow both convenient access for customers and maximise impulse traffic.
- Stores have relatively high sales per square metre when compared to many local competitors and comparable international businesses.
- High energy, engaging and entertaining retail format with constantly evolving merchandising. JB Hi-Fi has the ability to bring brands to life and create engagement in product categories.
- High level of loyalty and trust from customers - 1st in the 2014 Corporate Reputation Index released by AMR and the Reputation Institute (3rd in 2012 and 2013) and ranked 10th in Interbrand’s “Most Valuable Australian Retail Brands 2014” listing (10th in 2013).
- Established and successful online platform with sales growing approximately 13.9% from the previous financial year and accounting for approximately 2.2% of FY2014 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 competitive advantage.

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 markets in which JB Hi-Fi operates remain highly competitive. The Group believes that the competitive advantages set out above and the plans for growth set out below will allow it to maintain its market leading position.
- 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. This is reflected in the fact that, despite a decline in software sales in recent financial years, the Group has achieved positive total sales growth. Hardware sales as a percentage of total sales increased from 73.1% of total sales in FY2010 to 81.3% in FY2014 as a result of the expansion into new product categories and the introduction of new brands.
- Increasing cost of doing business – certain costs of doing business are outside of the Group's control. For example the cost of doing business has been impacted by 4 separate Fair Work Award wage increases over the last 4 years, totalling 13.2% to 30 June 2014. 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.

Strategies to drive growth

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

- Continued roll-out of JB Hi-Fi stores in Australia and New Zealand with a solid pipeline of new properties. The Group anticipates opening 8 new stores in the 2015 financial year and, subject to ongoing review, maintains its stated target of 214 stores in Australia and New Zealand. Shorter lease terms will be considered where appropriate to provide flexibility.
- The roll-out of JB Hi-Fi Home branded stores leverages the strength of the JB Hi-Fi brand and provides a significant growth opportunity. The Group anticipates that 4 new JB Hi-Fi Home stores will be opened and circa 26 JB Hi-Fi branded stores will be converted to this format in FY2015 (2 already converted in August 2014), in addition to the 22 stores as at 30 June 2014. The Group sees the potential for approximately 75 JB Hi-Fi Home stores by the end of FY2016, with the long term opportunity still to be fully quantified.
- Store roll-out program continues to deliver in excess of its cost of capital.
- Proactive management of store portfolio with continuation of the Group's disciplined approach to selecting new stores based on high foot traffic and closure of underperforming or sub-scale existing stores.
- Continued growth opportunities in many categories and in market share, both in physical stores and online.
- Continued technological innovation and the launch of new products and updated models will continue to drive new and replacement sales.
- New JB Hi-Fi online site launched in July 2014, which will provide an improved user experience across multiple platforms (e.g. computer, tablet & phone).
- Expansion of online product range and depth beyond that which is practical 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 and allows JB Hi-Fi to stay engaged with its customers after a physical purchase has been made.
- Significant opportunities to grow JB Hi-Fi Commercial & Education over the next 2-3 years and expand into new markets.
- Improved supply chain and logistics system to support the Group's expansion.
- Maintenance of the Group's competitive advantages and continued mitigation of the business risks faced by the Group.

TRADING OUTLOOK – as at 11 August 2014

July 2014 sales update:

- Total consolidated sales growth in July 2014 was -3.2%; and
- Consolidated comparable sales growth in July 2014 was -5.5%.

The sales result in July 2014 was impacted by recent market-wide declines in tablet sales. Gross margin in July 2014 was ahead of last year. A good pipeline of new products is expected to drive solid sales growth for FY2015.

In Australia, the Group expects to open 2 new JB Hi-Fi stores and 4 new JB Hi-Fi Home stores in FY2015 (including one new JB Hi-Fi Home store opened in July 2014) and to convert 26 existing stores to JB Hi-Fi Home (17 in the first half of FY2015, including 2 stores already converted in August 2014). In New Zealand, the Group expects to open 2 new JB Hi-Fi stores in FY2015.

The Group expects sales in FY2015 to be circa \$3.6 billion driven by the JB Hi-Fi Home roll-out, the continuation of the new store roll-out program and the maturation of recently opened stores, the expansion of JB Hi-Fi Commercial & Education and the Group's new website.

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REMUNERATION REPORT (audited)

Remuneration Overview for the 2014 financial year

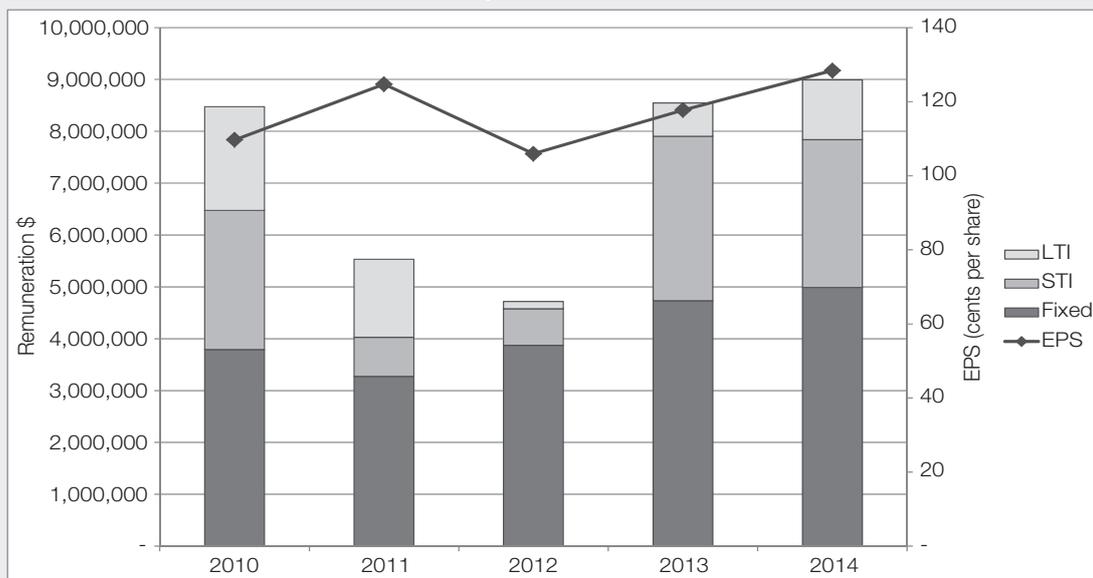
The Board recognises that the performance of the Group depends on the quality and motivation of its people, including both the executives (being those persons listed as executives on page 32) and the approximately 7,000 employees of the Group across Australia and New Zealand. The Company's remuneration strategy seeks to appropriately reward, incentivise and retain key employees. The Board aims to achieve this by setting competitive remuneration packages that include a mix of fixed remuneration and short and long term incentives ("packages").

Snapshot

- **Company performance:** The Board notes that the 2014 financial year has been a successful year for the Company, with management having delivered record revenue and increased EBIT by 7.5% and EPS by 9.1% from the previous financial year. Over the period the Company's share price increased almost 9% from \$16.81 at 30 June 2013 to \$18.30 on 30 June 2014.
- **Fixed pay:** With certain exceptions, fixed remuneration for executives increased by 5%.
- **Short term incentive:** The Company's short term incentive plan rewards performance against both financial and non-financial measures. As a result of EBIT growing by 7.5%, between 81%-85% of the available STI was paid to executives.
- **Long-term incentives:** In general, no options issued to executives in previous years vested this year, because the EPS performance hurdles were not met.
- **Leadership/retention:** Terry Smart retired as CEO and Richard Murray was appointed to the role. One-off retention arrangements involving the grant of options that only vest if the executive is still employed in two years' time were put in place in early FY2015 with four senior executives to ensure continuity of the executive team during this transition.

As demonstrated by the graph below (which excludes payments made to Terry Smart as a result of his retirement as CEO), total executive remuneration increased in line with the increase in EPS. However, the aggregate of fixed pay and Short Term Incentive ("STI") earned by executives for FY2014 slightly decreased compared to FY2013. This was as a result of the executives each receiving between 81%-85% of their STI rather than 100% as received in FY2013. Whilst the Long Term Incentives ("LTI") expense for share options granted to the executives increased, no options granted to 5 of the 6 executives actually vested in FY2014, as the performance conditions were not met.

Executive remuneration and EPS over the last 5 financial years:



Notes

1. 2010 remuneration excludes the leave entitlement payouts of \$277,696 to Richard Uechtritz upon his retirement as CEO.
2. 2011 EPS is normalised to exclude the impact of the Clive Anthonys restructuring charge.
3. 2012 LTI expense is the 2012 period LTI expense only, excluding any prior period write-backs.
4. An additional executive, George Papadopoulos, joined the executive team mid-way through FY2012 and FY2013 is the first year which includes a full year of Mr Papadopoulos' remuneration.
5. 2014 excludes the impact of Terry Smart's retirement, further detail is provided on pages 30 and 42.
6. See note 1 on page 37 for detailed explanation about the LTI expense shown.

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2014 Remuneration Reviews

- In setting the 2014 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 comparator groups of companies identified by reference to market capitalisation and business sector. Remuneration packages for the other executives were then set by reference to the packages for the CEO and CFO. See page 32 for further information on the Company's policy in setting executive remuneration packages.
- Fixed remuneration for individual executives has generally increased by 5.0% from FY2013 to FY2014, although Peter Green received a 7.6% increase and George Papadopoulos a 6.1% increase. The Board determined that the increases for executives were appropriate in view of its need to regularly review and consider levels of remuneration in the light of the market, to take account of the changing scope of roles and responsibilities as the business grows, and in order to appropriately reward, incentivise and retain these key employees. The slightly higher increases for Peter and George were on the basis that they were starting from a relatively lower base compared to their peer groups in equivalent roles in comparable companies.
- There was no substantial change from the previous financial year between the mix of fixed remuneration and short and long term incentives.
- The LTI expense recognised by the Company for the share options previously granted to the executives increased on the previous financial year. As the Company's LTI is subject to an EPS growth performance condition, an assessment is made each year of the likelihood of previously issued options vesting and an expense is recognised for those options expected to vest. The growth in the Company's EPS over the past 2 financial years has increased the number of options expected to vest in the future, and accordingly, LTI expense has increased from FY2013.

A summary of each of the key elements of executive performance-related remuneration for the 2014 financial year is set out below. Further detail is set out in the remainder of the Remuneration Report.

Short Term Incentive ("STI") Plan

The annual STI plan is delivered in cash and is subject to financial and non-financial performance conditions. The structure of the STI plan for the 2014 financial year was generally consistent with that for the 2013 financial year and is as follows.

Chief Executive Officer

- 75% of the total STI available to the CEO was dependent upon the achievement of Group's EBIT target for FY2014 (details are set out on page 33). 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 (and approved by the Board) 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 81% of available STI, comprising 75% of that part dependent upon Group EBIT and 100% of that part attributable to qualitative objectives.

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. Each of the other executives was paid 75% 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 (and approved by the Remuneration Committee and the Board). 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. Four of the five executives received 100% of this part of the available STIs and the other executive received 89% 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 (and approved by the Remuneration Committee and the Board). 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 executives was paid 100% of this part of the available STI.

Overall, between 81% and 85% of the available STI for each executive was paid. Further detail of the targets and objectives successfully achieved in respect of STIs is set out on pages 33 to 35.

Long Term Incentive (“LTI”) Plan

- In respect of five of the six executives, no options issued in previous financial years vested during the 2014 financial year, as the relevant performance hurdles were not satisfied. 22,637 options held by George Papadopoulos, and issued prior to George becoming an executive, vested during FY2014. This mirrors the position in the 2013 financial year when the only options held by executives which vested were those granted to Peter Green before he became an executive.
- The terms of share options issued to executives during the 2014 financial year were consistent with those issued during the 2013 financial year.
- During the 2014 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 FY2014 will vest a third each on the third, fourth and fifth anniversary of the effective grant date (being 16 August 2013) provided that all other vesting conditions are satisfied.
- All share options granted to executives during FY2014 contain a performance hurdle requiring compound annual EPS growth from the statutory 2013 EPS base of 117.70 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. The Company believes that compound annual EPS growth hurdles of 5% to 10% are aligned with the earnings outlook of the Group, taking account of consensus forecasts at the time of setting the hurdles. These EPS growth hurdles are consistent with EPS growth hurdles applying to share options issued in FY2013.
- The following table illustrates the EPS targets for options issued in FY2014 with 5% and 10% compound annual EPS growth:

Year	FY2016	FY2017	FY2018
EPS hurdle - 5% compound growth	136.3	143.1	150.2
<i>Required increase in EPS from FY2013 EPS</i>	16%	22%	28%
EPS hurdle - 10% compound growth	156.7	172.3	189.6
<i>Required increase in EPS from FY2013 EPS</i>	33%	46%	61%

- The exercise price for certain options granted in FY2014 is the closing volume weighted average share price of the Company's shares over the 5 trading days following and including the date of release of the Company's 30 June 2013 full year results, being \$18.93. Other options have a \$0 exercise price.
- The issue of options for the 2014 financial year to Terry Smart and Richard Murray, the executive directors of the Company during FY2014, was approved by shareholders at the Company's Annual General Meeting in October 2013.

Retirement of Chief Executive Officer on 30 June 2014

Terry Smart retired as Chief Executive Officer of the Company on 30 June 2014.

Terry received 81% of his available STI for the 2014 financial year (being \$991,526), determined by reference to the agreed performance conditions set at the start of FY2014.

The Board exercised its discretion to leave certain unvested options held by Terry that are due to have performance conditions tested at the end of the 2015 financial year on foot, to be tested at the same time as for continuing executives. This was in recognition that, at the time of retirement, Terry had served a significant portion of the relevant performance periods. To the extent that any of these options have not vested following testing in 2015 they will lapse. All other options held by Terry lapsed on his retirement.

In return for Terry agreeing to a 12 month restraint and in recognition of the lapse of options upon retirement, the Company made a payment of \$1,295,000 to him representing approximately 9 months' fixed remuneration.

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2015 Executive Remuneration Packages – Key Changes

The executive remuneration packages for the 2015 financial year will follow a similar structure to that used for FY2014. However, the Company has decided to make certain changes and further detail is provided on page 39 of this Report.

2015 Non-executive directors' fees

For the 2014 financial year non-executive directors' fees remained at the level set in October 2010. The Board recognises the need to remain competitive in the market in order to continue to attract and retain talented directors and has therefore decided to increase non-executive director fees for the 2015 financial year. Further detail is provided on page 41 of this Report.

Remuneration Recommendations

The Company received benchmarking data, remuneration recommendations and general advice in relation to remuneration related matters from 3 Degrees Consulting (further details are provided on page 41).

Further detail regarding executive and non-executive remuneration is set out in the body of this Remuneration Report.

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EXECUTIVE REMUNERATION FOR FY2014

Details of executive key management personnel

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

Executive Directors

Terry Smart Chief Executive Officer and Executive Director (retired and resigned from the Board 30 June 2014)
 Richard Murray Chief Financial Officer and Executive Director (Chief Executive Officer from 1 July 2014)

Executives

Terry Smart Chief Executive Officer and Executive Director (retired and resigned from the Board 30 June 2014)
 Richard Murray Chief Financial Officer and Executive Director (Chief Executive Officer from 1 July 2014)
 Scott Browning Marketing Director
 Cameron Trainor Merchandise Director
 Peter Green Operations Director
 George Papadopoulos Technology Director
 Nick Wells Chief Financial Officer (from 1 July 2014)

Group executive remuneration policy – 2014 financial year

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

The Remuneration Committee reviews the remuneration packages of all executives on an annual basis and makes recommendations to the Board. Remuneration packages are reviewed with due regard to performance and data on remuneration paid by comparable companies. Where appropriate, the Remuneration Committee may receive expert independent advice regarding remuneration levels required to attract and compensate executives, given the nature of their work and responsibilities. Details of the remuneration recommendations received by the Company from its remuneration advisor are set out on page 41.

In setting the 2014 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 comparator groups of companies identified by reference to market capitalisation (being those ranked ASX75 - ASX150) and business sector. The Committee 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 years') is not available. The Company set remuneration packages for the CEO and CFO taking these factors into account and remuneration packages for the other executives are then set by reference to the packages for the CEO and CFO.

The Remuneration Committee also considers current market conventions with regard to the splits between fixed, short-term and long-term incentive elements and for FY2014 considered the following target bands appropriate:

Elements of remuneration	Position	Proportion of maximum total remuneration package	
		Target	FY2014 Actual
Fixed	Chief Executive Officer	45% - 50%	49%
	Executives	45% - 55%	50%
Short-term incentives (STIs)	Chief Executive Officer	30% - 35%	35%
	Executives	25% - 35%	33%
Long-term incentives (LTIs)	Chief Executive Officer	15% - 20%	16%
	Executives	15% - 25%	17%

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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 FY2014 was based on the following criteria:

- if FY2014 statutory EBIT was more than FY2013 statutory EBIT then the STI would apply. No part of the STI would be paid if FY2014 statutory EBIT was the same as or less than FY2013 statutory EBIT; and
- if FY2014 statutory EBIT was equal to, or exceeded, 110% of FY2013 statutory EBIT then 100% of this element would be paid; and
- payment of STIs between these two benchmarks would be on a linear basis.

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

Given FY2014 statutory EBIT was 107.5% of FY2013 statutory EBIT, 75% of the available Quantitative Bonus (Group performance) was paid to executives' for FY2014.

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 on the following page.

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:

Executives	Quantitative Bonus - Group performance	Quantitative Bonus - Individual performance					Qualitative Bonus - Individual performance	Total Available
	EBIT	Commercial (1)	Inventory (2)	Wages (3)	Advertising (4)	Online (5)	Non-financial (6)	
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) Performance of Commercial & Education.
- (2) Inventory control.
- (3) Store wage cost control.
- (4) Advertising spend control.
- (5) Performance of online business.
- (6) Non-financial measures include some of the following for each executive:
 - Succession planning and team development
 - Strategic leadership, initiatives and competitive positioning of the Company
 - Internal process improvements
 - Expenditure control processes and programs
 - Inventory category focus
 - Inventory and product profitability practices
 - Promotional planning processes
 - Sales training
 - Inventory management practices
 - Customer engagement
 - Internal reporting processes
 - Project management processes

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Each executive's performance has been measured against the applicable targets. The resulting percentage of STI actually paid of each element for the 2014 financial year is detailed in the following table:

Executives	Quantitative Bonus - Group performance	Quantitative Bonus - Individual performance					Qualitative Bonus - Individual performance	Total Paid
	EBIT	Commercial	Inventory	Wages	Advertising	Online	Non-financial	
T. Smart	75%						100%	81%
R. Murray	75%	100%					100%	85%
S. Browning	75%				100%		100%	85%
C. Trainor	75%		100%				100%	85%
P. Green	75%			100%			100%	85%
G. Papadopoulos	75%					89%	100%	83%

Long-term Incentive – 2014 financial year grant

Description:

Executives received a combination of equity options as follows:

- Options with an exercise price based upon the Company's share price following the release of its results for the 2013 financial year; and
- 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 (options with an exercise price).

Generally the value of the LTI granted to each Executive was split 50/50 between the two types of options set out above. However, the Company's Merchandise Director, Cameron Trainor received 57% of this value in options with a zero exercise price and the remainder in options with an exercise price.

Summary of performance condition:

All options issued to executives for the 2014 financial year under the Group's long-term incentive program are subject to a performance hurdle requiring compound annual EPS growth (from FY2013 EPS of 117.70 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.

The performance hurdles are consistent with those set for options issued for the 2013 financial year. When setting the performance hurdles of 5% to 10% compound annual EPS growth the Board considered consensus forecasts and the earnings outlook for the Group.

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 2013, due to vest in August 2016 and expire in August 2019 assessed against an EPS hurdle of 10%.

Year	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
EPS	Grant Base EPS = 117.70	n/a	n/a	Test – Required EPS = 156.7	Retest – Required EPS = 172.3	Retest – Required EPS = 189.6	n/a

Options issued to executives for the 2014 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 the majority of 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 2014 performance

The Company did not achieve the EPS hurdles in relation to options which vest based on 2012, 2013 or 2014 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:

- FY2014 were 22,637 options held by George Papadopoulos, and issued prior to George becoming an executive; and
- FY2013 were 11,666 options held by Peter Green, and issued prior to Peter becoming an executive.

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:

	FY10	FY11	FY12	FY13	FY14	Growth	
						FY14	Last 5 years ^(v)
1. Financial performance:							
Sales (\$m)	2,731.3	2,959.3	3,127.8	3,308.4	3,483.8	5%	8%
EBIT (\$m)	175.1	196.0 ⁽ⁱ⁾	161.5	177.8	191.1	7%	6%
Net profit attributable to owners of the Company (\$m)	118.7	134.4 ⁽ⁱ⁾	104.6	116.4	128.4	10%	6%
Basic EPS (cents)	109.7	124.7 ⁽ⁱ⁾	105.9	117.7	128.4	9%	8%
2. Shareholder value created:							
Company share price at the end of the reporting period (\$)	19.07	17.07	8.86	16.81	18.30	9%	4%
Market capitalisation (\$m)	2,066.1	1,682.0	875.8	1,663.3	1,810.7	9%	2%
Enterprise value ⁽ⁱⁱ⁾ (\$m)	2,084.0	1,887.3	985.9	1,720.3	1,946.9	13%	3%
Movement in enterprise value during the financial year (\$m)	378.8	(196.7)	(901.4)	734.4	226.7		
Dividends paid to shareholders during the financial year (\$m)	67.1	88.4	77.0	65.3	77.2		
Off market share buy-back (\$m)	-	173.3	-	-	-		
On market share buy-back (\$m)	-	-	-	-	25.8		
Shareholder value created⁽ⁱⁱⁱ⁾							
- per annum (\$m)	445.9	65.0	(824.4)	799.7	329.7		
- cumulative (\$m) since IPO	2,027.4	2,092.4	1,268.0	2,067.7	2,397.4	16%	27% ^(iv)
- rolling (\$m) last five years	1,776.0	1,653.9	215.0	992.5	815.9	(18%)	9%

(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.

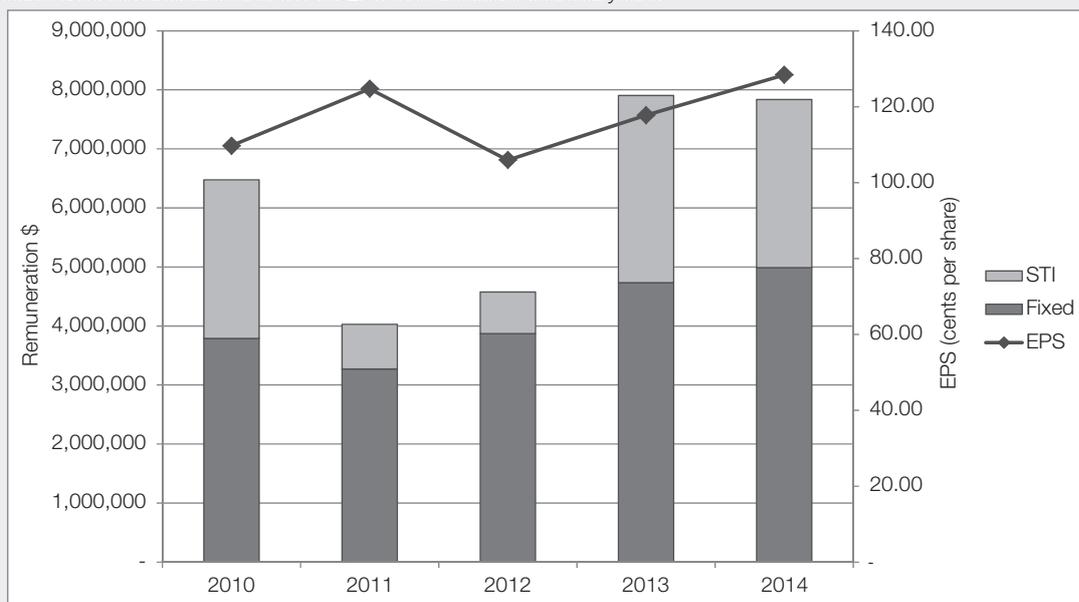
(iii) Shareholder value created is measured as the increase in the enterprise value, plus cash dividends and share buy-backs paid during the financial year. Cumulative shareholder value is measured from the date of listing in October 2003 when opening shareholder value was \$201.7m.

(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.

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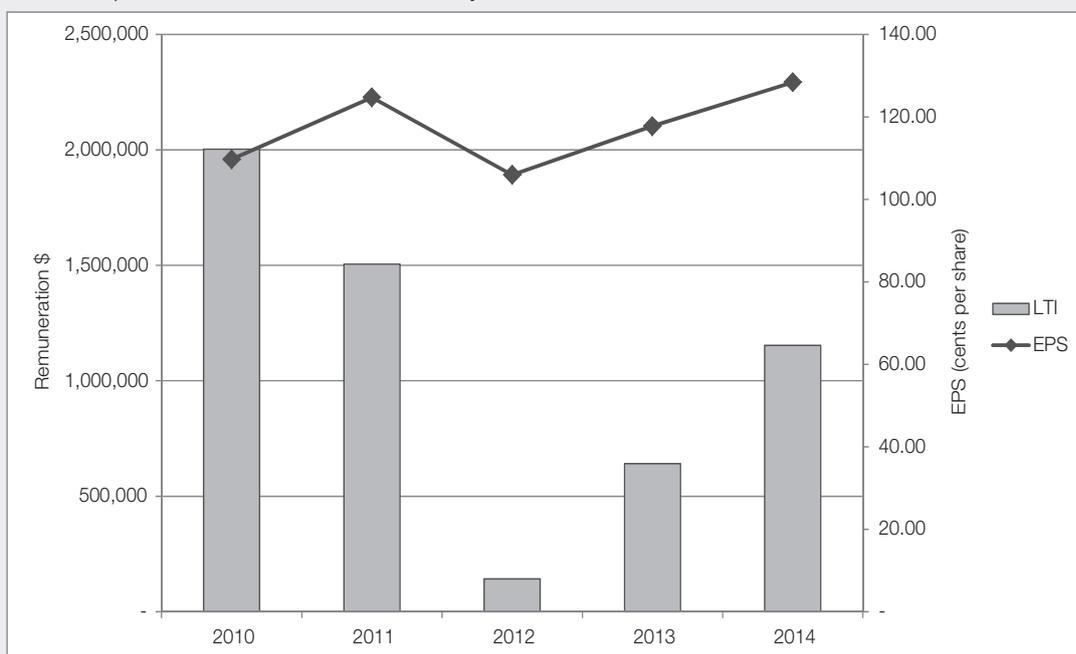
Executive fixed remuneration and STI vs. EPS over the last 5 financial years:



Notes

- 2013 includes a full year of George Papadopoulos's remuneration, who joined the executive team mid-way through 2012.
- 2011 EPS is normalised to exclude the impact of the Clive Anthonys restructuring charge.
- 2010 remuneration excludes the leave entitlement payouts of \$277,696 to Richard Uechtritz upon his retirement as CEO.
- 2014 remuneration excludes the \$1,295,000 one-off payment to Terry Smart on retirement. Further detail is provided on page 30.

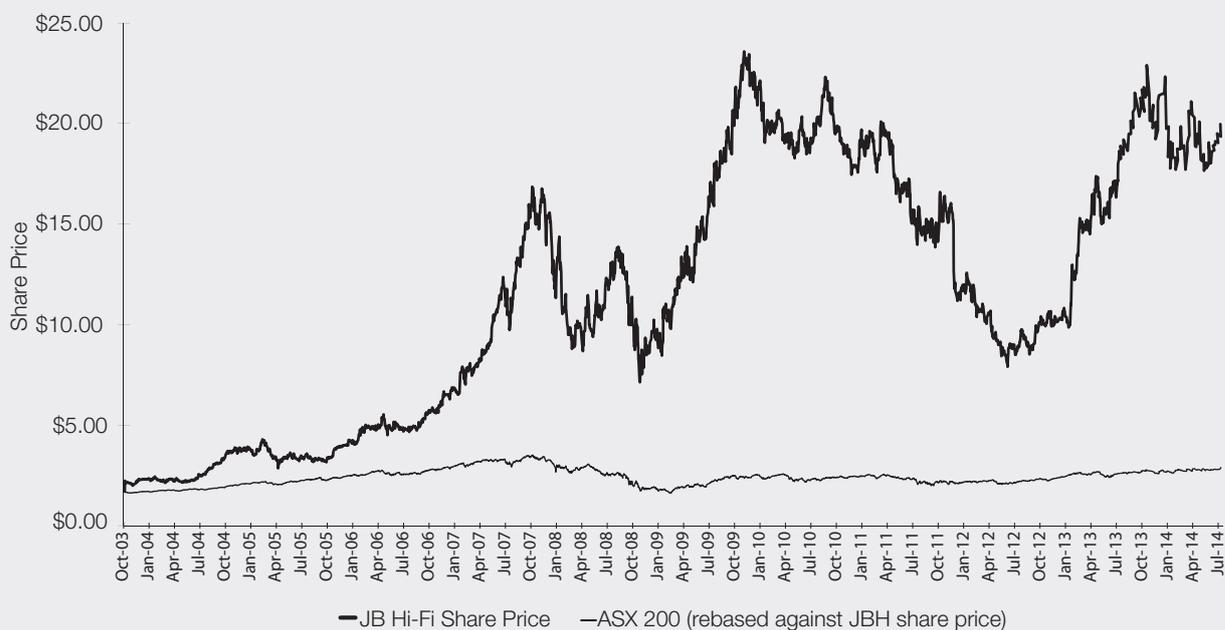
Executive LTI expense vs. EPS over the last 5 financial years:



Notes

- 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.
- 2012 LTI expense shown is the 2012 period LTI expense only, excluding any prior period write-backs.
- 2011 EPS is normalised to exclude the impact of the Clive Anthonys restructuring charge.
- 2014 LTI expense shown is the expense assuming Terry Smart had not retired, refer footnote (iv) on page 42 for further details.

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 2014. The JB Hi-Fi closing share price compound annual growth rate between listing and 1 August 2014 is 25.4%, whilst the ASX 200 compound annual growth rate over the same period is 5.0%.



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 2014 financial year from all executives.

Key terms of executive 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 new Chief Executive Officer's employment agreement contains, inter alia, the following provisions:

- if the Company wishes to terminate the employment of Richard, other than for cause, it must provide 12 months' notice to Richard, or a payment in lieu of such notice. Upon resignation, Richard must provide the Company with 12 months' notice;
- Richard is subject to a 12 month post-termination non-compete and non-solicitation restriction; and
- Richard was not entitled to any "sign-on" bonus upon becoming CEO.

The following notice periods have been specifically agreed with the other executives:

- Nick Wells – if the Company wishes to terminate the employment of Nick, other than for cause, it must provide 6 months' notice to Nick, or a payment in lieu of such notice. Upon resignation, Nick must provide the Company with 6 months' 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.

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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.

The Company is progressively introducing contractual entitlements to clawback incentive remuneration in the event of fraud, dishonesty, or material misstatements in the Company's financial statements or misstatements concerning the satisfaction of a performance condition.

2015 EXECUTIVE REMUNERATION PACKAGES – KEY CHANGES

The executive remuneration packages for the 2015 financial year will follow a similar structure to that used for FY2014. However, the Company has decided to make certain changes. These changes primarily take account of the transition to a new CEO and CFO on 1 July 2014 as follows:

CEO/CFO Remuneration Packages

The total remuneration packages for each of the new CEO and CFO for FY2015 are lower than the packages for their predecessors in the relevant roles, recognising that these executives are new to their respective roles.

One-Off Grant of LTIs aimed at retention of ongoing executives

A one-off issue of additional share options with a zero exercise price was made in July 2014 to each of the four other executives. The Company recognises the importance of retaining these executives following the CEO transition and these options are therefore subject to a service condition only (i.e. there is no performance condition) and will vest if the relevant executive remains employed by the Company on the second anniversary of issue (1 July 2016). The options will lapse upon the earlier exit of the executive for any reason (unless the Board decides otherwise). The value of such options, based on the 5 day volume weighted average price for JB Hi-Fi shares from and including 1 July 2014, is:

- Cameron Trainor \$399,989
- Scott Browning \$199,986
- Peter Green \$199,986
- George Papadopoulos \$199,986

Restructure of Executive LTIs for FY2015

The Board and Remuneration Committee believe that the purpose of LTI is to both reward and retain executives. Notwithstanding the strong performance of the Company taking account of market conditions, no options that have been granted to executives, whilst they were executives, have vested during the past 3 years. Accordingly, to guard against the risk of executives devaluing the LTI element of their package and to give effect to this dual purpose of reward and retention, the Board believes it is appropriate to grant a relatively small proportion of share options which are subject only to a service condition and therefore solely focused on retention of executives. The purpose of these share retention options is to ensure executives remain motivated and continue to value the LTI. Executive LTIs for FY2015 will therefore comprise 2 elements (in addition to the one-off grant referenced above) as follows:

- Performance and Service Based LTI (80% of available LTI) – these will be split equally between:
 - share options with exercise prices, EPS based performance hurdles and service based vesting conditions;
 - share options with zero exercise prices, EPS based performance hurdles and service based vesting conditions; and
- Service Based LTI (20% of available LTI) - share options with zero exercise prices, service based vesting conditions but no performance hurdles. One third of these "service-based" options will vest if the relevant executive is still employed by the Company on each of the 3rd, 4th and 5th anniversary of issue, or if the Company terminates the executive's employment other than for cause (in which case the options will vest on the anniversaries referred to above).

NON-EXECUTIVE DIRECTOR REMUNERATION

FY2014 Non-Executive Director Remuneration

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

Greg Richards	Non-executive Director, 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

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

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 remuneration packages for non-executive directors for FY2014 have not changed since October 2010 and are set out below:

Role	<i>Fees 2014 \$</i>	<i>Fees 2013 \$</i>
Chairman	\$240,000	\$240,000
Non-executive director	\$120,000	\$120,000
<i>Additional Committee Fees</i>		
Remuneration Committee Chairman	\$0	\$0
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.

Except for the arrangements in respect of the consulting services provided to the Company by Richard Uechtritz from May 2010 until November 2013, whereby he was 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.

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FY2015 Non-Executive Director Remuneration

The Board recognises the need to remain competitive in the market in order to continue to attract and retain talented directors. 3 Degrees Consulting was engaged to undertake a benchmarking analysis and provide remuneration recommendations regarding the level of fees paid to non-executive directors. The Company will increase non-executive directors' fees (including fees for Committee membership) for the 2015 financial year by 21% for the Chairman and between 8% and 11% for the other non-executive directors. Individual increases are dependent upon the Committee membership of each non-executive director (see above for details of Committee membership). These increases reflect the fact that this is the first increase since October 2010 with the result that the previous fees were relatively low compared to those paid by comparable companies. The higher increase for the Chairman also takes into account the decision to pay fees of \$20,000 per annum for his role as Chairman of the Remuneration Committee; noting that he did not receive compensation for this role in previous years. 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.

OTHER INFORMATION

Remuneration Recommendations

3 Degrees Consulting was engaged to provide remuneration recommendations in accordance with the provisions of the Corporations Act 2001 and was paid \$57,100 (excluding GST) for remuneration recommendations in relation to the retiring CEO, the incoming CEO, the non-executive directors and for other advice relating to CEO succession. 3 Degrees Consulting provided formal declarations confirming that its recommendations were made free from undue influence by the member or members of the key management personnel to whom the recommendations related and, in view of this declaration and the process adopted in the engagement of 3 Degrees Consulting and receipt of its recommendations, the Board is satisfied that each of the recommendations were free of undue influence by such persons.

In addition to the above, 3 Degrees Consulting was engaged to provide other governance and remuneration related services and was paid \$65,900 (excluding GST) for these services.

KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel for FY2014 include the non-executive directors and the six identified executives (excluding Nick Wells who became CFO on 1 July 2014). The aggregate compensation of the key management personnel of the Group for FY2014 is set out below:

	Consolidated	
	2014 \$	2013 \$
Short-term employee benefits		
Salary and fees	5,374,486	5,113,261
Bonus	2,849,072	3,172,752
Other	1,463,085	168,085
	9,686,643	8,454,098
Post-employment benefits		
Superannuation	229,611	236,285
	229,611	236,285
Share based payments		
Current period expense	978,369	640,921
Prior periods expense write-back	(114,959)	–
	863,410	640,921
	10,779,664	9,331,304

REMUNERATION REPORT (continued)

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

	Short-term employee benefits			Post-employment benefits	Share based payments ⁽ⁱ⁾			Total
	Salary & fees	Bonus ⁽ⁱⁱ⁾	Other ⁽ⁱⁱⁱ⁾	Super-annuation	Current period expense ⁽ⁱ⁾	Prior periods expense write-back ⁽ⁱ⁾	Total Share based payments	
2014	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive directors								
G. Richards	219,680	-	-	219,680	20,320	-	-	240,000
J. King	128,146	-	-	128,146	11,854	-	-	140,000
B. Laughton	132,723	-	-	132,723	12,277	-	-	145,000
G. Levin	115,000	-	-	115,000	25,000	-	-	140,000
R. Uechtritz	109,840	-	-	109,840	10,160	-	-	120,000
	705,389	-	-	705,389	79,611	-	-	785,000
Executives								
T. Smart	1,662,859	991,526	1,328,711	3,983,096	25,000	216,328	(114,959)	4,109,465
R. Murray	745,828	481,218	28,187	1,255,233	25,000	181,477	-	1,461,710
S. Browning	588,675	386,570	28,187	1,003,432	25,000	145,781	-	1,174,213
C. Trainor	741,015	481,218	33,000	1,255,233	25,000	192,922	-	1,473,155
P. Green	467,145	256,434	20,000	743,579	25,000	105,239	-	873,818
G. Papadopoulos	463,575	252,106	25,000	740,681	25,000	136,622	-	902,303
	4,669,097	2,849,072	1,463,085	8,981,254	150,000	978,369	(114,959)	9,994,664
	5,374,486	2,849,072	1,463,085	9,686,643	229,611	978,369	(114,959)	10,779,664

- (i) In accordance with Accounting Standards, remuneration includes the amortisation of the fair value of options issued under the Group share option plans that are expected to vest, less any write-back on options lapsed or expected to lapse as a result of actual or expected performance against non-market hurdles ("Option Accounting Value"). The fair value of options is measured at grant date in accordance with the relevant accounting standard and progressively allocated to profit and loss over the vesting period of the option. The amount included in remuneration above may not be indicative of the benefit (if any) that key management personnel may ultimately realise should the equity instruments vest.
- (ii) Performance based.
- (iii) For T. Smart, the amount in the "Other" column comprises the \$1,295,000 one-off payment on retirement, refer page 30, and a \$33,711 car allowance. For all other executives, the amount shown is comprised entirely of car allowances.
- (iv) Share based payment expense has been impacted by the lapse of certain options and retention of other options upon T. Smart's retirement. The share based payment expense that would have been recognised for T. Smart in FY14 had T. Smart not retired is \$391,011 and the total share based payment expense for all executives would have been \$1,153,051.

Performance based

	Short-term employee benefits				Share based payments			
	Maximum Potential STI		Actual STI		Maximum Potential LTI		Actual LTI ⁽ⁱⁱ⁾	
	Bonus		Bonus		Options		Options	
	\$	% of total potential remuneration	\$	% of total actual remuneration	\$	% of total potential remuneration	\$	% of total actual remuneration
2014								
Non-executive directors								
R. Uechtritz ⁽ⁱ⁾	-	0%	-	0%	-	0%	-	0%
Executives								
T. Smart	1,218,092	35%	991,526	24%	578,048	16%	101,369	2%
R. Murray	565,341	35%	481,218	33%	262,222	16%	181,477	12%
S. Browning	454,148	35%	386,570	33%	210,662	16%	145,781	12%
C. Trainor	565,341	34%	481,218	33%	305,719	18%	192,922	13%
P. Green	301,262	31%	256,434	29%	154,746	16%	105,239	12%
G. Papadopoulos	302,103	31%	252,106	28%	173,630	18%	136,622	15%
	3,406,287	34%	2,849,072	29%	1,685,027	17%	863,410	9%
	3,406,287	34%	2,849,072	29%	1,685,027	17%	863,410	9%

- (i) The share based payments included in R. Uechtritz's remuneration in FY13 related to options held in respect of his role as a consultant to the Group, which were issued whilst he was CEO of the Group. The consultancy agreement has now ended and the options expired, hence there is no expense recognised in the current year or to be recognised in future years.
- (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⁾			Total
	Salary & fees	Bonus ⁽ⁱⁱⁱ⁾	Other ⁽ⁱⁱⁱ⁾	Total short-term employee benefits	Super-annuation	Current period expense ⁽ⁱ⁾	Prior periods expense write-back ⁽ⁱ⁾	Total Share based payments	
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.

	Performance based								
	Short-term employee benefits				Share based payments				
	Maximum Potential STI		Actual STI		Maximum Potential LTI		Actual LTI ⁽ⁱⁱ⁾		
	<i>Bonus</i>	<i>% of total potential remuneration</i>	<i>Bonus</i>	<i>% of total actual remuneration</i>	<i>Options</i>	<i>% of total potential remuneration</i>	<i>Options</i>	<i>% of total actual remuneration</i>	
2013	\$		\$		\$		\$		
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.

All bonuses are paid in the financial year following the year in which they were earned, for example the 2014 financial year bonuses are paid in August 2014 (the 2015 financial year), except for Terry Smart's 2014 financial year bonus, of which 79% was paid upon his retirement in June 2014 with the balance paid in August 2014.

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 and 2014 financial years, an exercise price is payable on the exercise of an option. This exercise price is usually calculated as being the closing volume weighted average share price (VWAP) of JB Hi-Fi Limited shares over the 5 trading days post and including the date of release of the Group's full year results, immediately prior to the grant of the option. This price may be calculated by reference to another date, for example where a grant of options occurs other than following the release of results as a result of an executive or non-executive manager joining the Group or being promoted within the Group. 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 that have an exercise price payable on exercise of the option, a share price condition provides that options will only vest if, during a trading window (as defined in the Group's Securities Trading Policy), the VWAP of the shares over 5 consecutive trading days exceeds the option exercise price (at a time when all other conditions have been satisfied);
- for some of the options issued 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 and 2014 financial years generally expire five years after they are issued. Options issued to executives during the 2013 and 2014 financial years generally expire six years after they are issued. All unvested options generally expire immediately upon termination of employment although, depending upon the terms of issue, the Company may have discretion to allow the options to continue or waive vesting conditions in certain circumstances. Upon termination of employment, vested options either expire upon termination, 30 days after termination or continue in force depending upon the circumstances of the employee's exit and the terms of issue;
- each option entitles the holder to one ordinary share in JB Hi-Fi Limited;
- holders of options do not have the right, under the options, to dividends or to participate in any share issue or interest issue of JB Hi-Fi Limited or of any other body corporate or registered scheme;
- upon a change of control of the Company all vested and unvested options will automatically lapse unless the Company determines otherwise; and
- other conditions including, amongst other things, treatment of the options in the event of a capital reorganisation.

In July 2014 the Company made a one-off issue of share options with a zero exercise price to each of the executives (Cameron Trainor, Scott Browning, Peter Green and George Papadopoulos) other than the new CEO and new CFO. The Company recognises the importance of retaining these executives following the CEO transition and these options are therefore subject to a service condition only (i.e. there is no performance condition) and will vest if the relevant executive remains employed by the Company on 30 June 2016. The options will lapse upon the earlier exit of the executive for any reason (unless the Board decides otherwise).

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 \$
50	2,166	Ordinary	11/09/2009	\$18.10	11/09/2014	\$18.25	46.39%	2.4%	5.06%	\$6.10
55	55,191	Ordinary	23/12/2009	\$22.35	23/12/2014	\$22.26	45.84%	2.0%	5.18%	\$7.61
56	23,653	Ordinary	23/12/2009	\$22.35	23/12/2014	\$22.26	45.84%	2.0%	5.18%	\$7.61
57	20,761	Ordinary	3/06/2010	\$18.80	3/06/2015	\$18.80	45.75%	3.5%	5.10%	\$5.78
58	28,000	Ordinary	1/07/2010	\$19.10	1/07/2015	\$19.28	45.71%	3.4%	4.68%	\$5.88
59	12,000	Ordinary	1/07/2010	\$19.10	1/07/2015	\$19.28	45.71%	3.4%	4.68%	\$5.88
60	91,617	Ordinary	13/08/2010	\$20.30	13/08/2015	\$19.75	45.43%	3.3%	4.74%	\$6.03
61	39,264	Ordinary	13/08/2010	\$20.30	13/08/2015	\$19.75	45.43%	3.3%	4.74%	\$6.03
62	235,658	Ordinary	13/08/2010	\$20.30	13/08/2015	\$19.75	45.43%	3.3%	4.74%	\$6.03
65	17,636	Ordinary	1/12/2010	\$18.40	1/12/2015	\$18.75	44.93%	3.5%	5.11%	\$5.67
66	43,096	Ordinary	2/06/2011	\$16.75	2/06/2016	\$17.03	43.02%	4.5%	5.05%	\$4.64
67	352,150	Ordinary	12/08/2011	\$15.90	12/08/2016	\$14.95	41.54%	5.1%	3.95%	\$3.60
68	170,766	Ordinary	12/08/2011	\$15.90	12/08/2016	\$14.95	41.54%	5.1%	3.95%	\$3.60
69	73,186	Ordinary	12/08/2011	\$15.90	12/08/2016	\$14.95	41.54%	5.1%	3.95%	\$3.60
72	10,000	Ordinary	27/09/2011	\$15.05	27/09/2016	\$14.73	41.13%	5.2%	3.78%	\$3.47

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 \$
73	20,000	Ordinary	29/11/2011	\$15.37	29/11/2016	\$15.30	40.10%	5.0%	3.38%	\$3.50
74	35,000	Ordinary	31/01/2012	\$12.60	31/01/2017	\$12.01	40.98%	6.4%	3.31%	\$2.53
75	15,000	Ordinary	31/01/2012	\$12.60	31/01/2017	\$12.01	40.98%	6.4%	3.31%	\$2.53
76	97,561	Ordinary	31/07/2012	\$8.84	31/07/2017	\$8.74	32.46%	7.4%	2.66%	\$1.23
77	112,352	Ordinary	17/08/2012	\$9.75	17/08/2017	\$0.00	31.36%	6.7%	2.99%	\$8.57
78	110,677	Ordinary	17/08/2012	\$9.75	17/08/2017	\$0.00	30.00%	6.7%	2.99%	\$8.03
79	110,638	Ordinary	17/08/2012	\$9.75	17/08/2017	\$0.00	39.68%	6.7%	2.99%	\$7.53
80	418,576	Ordinary	17/08/2012	\$9.75	17/08/2018	\$9.75	40.37%	6.7%	2.99%	\$2.04
81	179,390	Ordinary	17/08/2012	\$9.75	17/08/2018	\$9.75	40.37%	6.7%	2.99%	\$2.04
82	28,750	Ordinary	17/08/2012	\$9.75	17/08/2018	\$0.00	30.00%	6.7%	2.99%	\$8.03
83	12,322	Ordinary	17/08/2012	\$9.75	17/08/2018	\$0.00	30.00%	6.7%	2.99%	\$8.03
84	18,589	Ordinary	17/08/2012	\$9.75	17/08/2018	\$0.00	39.68%	6.7%	2.99%	\$7.53
85	7,967	Ordinary	17/08/2012	\$9.75	17/08/2018	\$0.00	39.68%	6.7%	2.99%	\$7.53
86	18,591	Ordinary	17/08/2012	\$9.75	17/08/2018	\$0.00	41.19%	6.7%	2.99%	\$7.06
87	7,967	Ordinary	17/08/2012	\$9.75	17/08/2018	\$0.00	41.19%	6.7%	2.99%	\$7.06
88	4,667	Ordinary	6/11/2012	\$9.99	6/11/2017	\$0.00	31.73%	6.4%	2.78%	\$8.93
89	4,667	Ordinary	6/11/2012	\$9.99	6/11/2017	\$0.00	29.30%	6.4%	2.78%	\$8.39
90	4,666	Ordinary	6/11/2012	\$9.99	6/11/2017	\$0.00	37.10%	6.4%	2.78%	\$7.88
91	67,801	Ordinary	16/08/2013	\$18.66	16/08/2018	\$0.00	34.69%	3.8%	3.25%	\$17.57
92	67,802	Ordinary	16/08/2013	\$18.66	16/08/2018	\$0.00	32.08%	3.8%	3.25%	\$16.92
93	67,818	Ordinary	16/08/2013	\$18.66	16/08/2018	\$0.00	30.88%	3.8%	3.25%	\$16.30
94	107,530	Ordinary	16/08/2013	\$18.66	16/08/2019	\$18.93	32.55%	3.8%	3.25%	\$4.16
95	46,085	Ordinary	16/08/2013	\$18.66	16/08/2019	\$18.93	32.55%	3.8%	3.25%	\$4.16
96	9,860	Ordinary	16/08/2013	\$18.66	16/08/2019	\$0.00	32.08%	3.8%	3.25%	\$16.92
97	4,226	Ordinary	16/08/2013	\$18.66	16/08/2019	\$0.00	32.08%	3.8%	3.25%	\$16.92
98	9,860	Ordinary	16/08/2013	\$18.66	16/08/2019	\$0.00	30.88%	3.8%	3.25%	\$16.30
99	4,226	Ordinary	16/08/2013	\$18.66	16/08/2019	\$0.00	30.88%	3.8%	3.25%	\$16.30
100	9,859	Ordinary	16/08/2013	\$18.66	16/08/2019	\$0.00	38.50%	3.8%	3.25%	\$15.70
101	4,225	Ordinary	16/08/2013	\$18.66	16/08/2019	\$0.00	38.50%	3.8%	3.25%	\$15.70
102	58,306	Ordinary	1/07/2014	\$18.44	01/07/2020	\$0.00	31.61%	4.2%	2.99%	\$17.15
	<u>2,840,122</u>									

As at 11 August 2014, 131,330 options are vested and exercisable. In addition, 112,352 options will vest and become exercisable on 17 August 2014 and 402,083 options are available to vest and will become exercisable in the period 12 August 2014 to 5 September 2014 if the volume weighted average share price for any 5 consecutive trading days exceeds the exercise price of those options, which range from \$8.74 to \$22.26 per option.

The weighted average fair value of the share options granted during the financial year is \$10.91 (2013: \$4.11). 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.

2014

<i>Option Series</i>	<i>Grant date</i>	<i>Exercise date</i>	<i>Number exercised</i>	<i>Number of shares issued</i>	<i>Class of shares</i>	<i>Amount paid per share \$</i>	<i>Amount unpaid per share \$</i>	<i>Share price at exercise date \$</i>
41	26/08/2008	13/08/2013	186,669	186,669	Ordinary	\$12.98	-	\$18.96
41	26/08/2008	15/08/2013	20,000	20,000	Ordinary	\$12.98	-	\$18.85
41	26/08/2008	19/08/2013	33,333	33,333	Ordinary	\$12.98	-	\$18.60
41	26/08/2008	20/08/2013	13,333	13,333	Ordinary	\$12.98	-	\$18.40
41	26/08/2008	21/08/2013	1,600	1,600	Ordinary	\$12.98	-	\$18.50
41	26/08/2008	23/08/2013	38,400	38,400	Ordinary	\$12.98	-	\$18.92
42	26/08/2008	13/08/2013	36,762	36,762	Ordinary	\$12.98	-	\$18.96
43	26/08/2008	13/08/2013	15,754	15,754	Ordinary	\$12.98	-	\$18.96
44	26/08/2008	22/08/2014	68,928	68,928	Ordinary	\$12.98	-	\$18.71
45	26/08/2008	22/08/2013	29,541	29,541	Ordinary	\$12.98	-	\$18.71
46	2/04/2009	13/08/2013	45,000	45,000	Ordinary	\$11.62	-	\$18.96
46	2/04/2009	19/08/2013	45,000	45,000	Ordinary	\$11.62	-	\$18.60
47	29/06/2009	13/08/2013	152,001	152,001	Ordinary	\$14.92	-	\$18.96
47	29/06/2009	15/08/2013	8,500	8,500	Ordinary	\$14.92	-	\$18.85
47	29/06/2009	19/08/2013	23,500	23,500	Ordinary	\$14.92	-	\$18.60
47	29/06/2009	20/08/2013	2,833	2,833	Ordinary	\$14.92	-	\$18.40
47	29/06/2009	21/08/2013	14,166	14,166	Ordinary	\$14.92	-	\$18.50
47	29/06/2009	22/08/2013	15,000	15,000	Ordinary	\$14.92	-	\$18.71
47	29/06/2009	26/08/2013	8,500	8,500	Ordinary	\$14.92	-	\$19.04
47	29/06/2009	28/08/2013	2,834	2,834	Ordinary	\$14.92	-	\$18.71
47	29/06/2009	4/09/2013	15,000	15,000	Ordinary	\$14.92	-	\$18.98
47	29/06/2009	1/11/2013	17,500	17,500	Ordinary	\$14.92	-	\$21.22
47	29/06/2009	7/11/2013	8,500	8,500	Ordinary	\$14.92	-	\$22.82
47	29/06/2009	19/11/2013	5,000	5,000	Ordinary	\$14.92	-	\$21.19
47	29/06/2009	21/11/2013	10,000	10,000	Ordinary	\$14.92	-	\$20.10
47	29/06/2009	10/02/2014	8,500	8,500	Ordinary	\$14.92	-	\$18.45
47	29/06/2009	13/02/2014	28,500	28,500	Ordinary	\$14.92	-	\$18.23
47	29/06/2009	14/02/2014	15,000	15,000	Ordinary	\$14.92	-	\$18.27
47	29/06/2009	26/02/2014	3,500	3,500	Ordinary	\$14.92	-	\$18.70
48	29/06/2009	13/08/2013	10,500	10,500	Ordinary	\$14.92	-	\$18.96
48	29/06/2009	31/10/2013	10,653	10,653	Ordinary	\$14.92	-	\$21.80
49	29/06/2009	13/08/2013	4,500	4,500	Ordinary	\$14.92	-	\$18.96
49	29/06/2009	31/10/2013	4,566	4,566	Ordinary	\$14.92	-	\$21.80
51	29/09/2009	8/11/2013	15,000	15,000	Ordinary	\$19.27	-	\$21.88
51	29/09/2009	15/11/2013	10,000	10,000	Ordinary	\$19.27	-	\$21.80
52	29/06/2009	22/08/2013	21,540	21,540	Ordinary	\$14.92	-	\$18.71
52	29/06/2009	13/02/2014	40,753	40,753	Ordinary	\$14.92	-	\$18.23
53	29/06/2009	22/08/2013	9,231	9,231	Ordinary	\$14.92	-	\$18.71
53	29/06/2009	13/02/2014	17,466	17,466	Ordinary	\$14.92	-	\$18.23
54	12/10/2009	8/11/2013	5,000	5,000	Ordinary	\$18.86	-	\$21.88
62	13/08/2010	7/11/2013	15,667	15,667	Ordinary	\$19.75	-	\$22.82

REMUNERATION REPORT (continued)

2014 (continued)

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 \$
62	13/08/2010	8/11/2013	144,673	144,673	Ordinary	\$19.75	–	\$21.88
62	13/08/2010	12/11/2013	21,334	21,334	Ordinary	\$19.75	–	\$22.09
62	13/08/2010	14/11/2013	2,834	2,834	Ordinary	\$19.75	–	\$21.36
62	13/08/2010	18/11/2013	5,667	5,667	Ordinary	\$19.75	–	\$21.49
62	13/08/2010	25/11/2013	2,834	2,834	Ordinary	\$19.75	–	\$20.07
62	13/08/2010	26/11/2013	15,667	15,667	Ordinary	\$19.75	–	\$20.20
65	1/12/2010	1/11/2013	8,819	8,819	Ordinary	\$18.75	–	\$21.22
66	2/06/2011	20/08/2013	10,774	10,774	Ordinary	\$17.03	–	\$18.40
66	2/06/2011	21/08/2013	10,774	10,774	Ordinary	\$17.03	–	\$18.50
67	12/08/2011	20/08/2013	33,003	33,003	Ordinary	\$14.95	–	\$18.40
67	12/08/2011	21/08/2013	65,176	65,176	Ordinary	\$14.95	–	\$18.50
67	12/08/2011	22/08/2013	7,834	7,834	Ordinary	\$14.95	–	\$18.71
67	12/08/2011	23/08/2013	5,000	5,000	Ordinary	\$14.95	–	\$18.92
67	12/08/2011	26/08/2013	2,834	2,834	Ordinary	\$14.95	–	\$19.04
67	12/08/2011	28/08/2013	2,834	2,834	Ordinary	\$14.95	–	\$18.71
67	12/08/2011	4/09/2013	10,000	10,000	Ordinary	\$14.95	–	\$18.98
67	12/08/2011	16/10/2013	2,834	2,834	Ordinary	\$14.95	–	\$20.86
67	12/08/2011	1/11/2013	16,502	16,502	Ordinary	\$14.95	–	\$21.22
67	12/08/2011	12/11/2013	5,000	5,000	Ordinary	\$14.95	–	\$22.09
67	12/08/2011	14/11/2013	2,834	2,834	Ordinary	\$14.95	–	\$21.36
67	12/08/2011	18/11/2013	2,834	2,834	Ordinary	\$14.95	–	\$21.49
67	12/08/2011	19/11/2013	5,000	5,000	Ordinary	\$14.95	–	\$21.19
72	27/09/2011	8/11/2013	5,000	5,000	Ordinary	\$14.73	–	\$21.88
73	29/11/2011	14/02/2014	10,000	10,000	Ordinary	\$15.30	–	\$18.27
			1,438,091	1,438,091				

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				

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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 ⁰	Date for testing	Relevant Financial Year ⁰	Exercise Price \$	Expiry Date
Vested (time based service condition and performance hurdle achieved)						
Nil						
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)						
55	23/12/2009	10%	23/12/2012	2012	\$22.26	23/12/2014
55	23/12/2009	10%	23/12/2013	2013	\$22.26	23/12/2014
56	23/12/2009	15%	23/12/2012	2012	\$22.26	23/12/2014
56	23/12/2009	15%	23/12/2013	2013	\$22.26	23/12/2014
58	1/07/2010	10%	1/07/2012	2012	\$19.28	1/07/2015
58	1/07/2010	10%	1/07/2013	2013	\$19.28	1/07/2015
58	1/07/2010	10%	1/07/2014	2014	\$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
59	1/07/2010	15%	1/07/2014	2014	\$19.28	1/07/2015
60	13/08/2010	10%	13/08/2012	2012	\$19.75	13/08/2015
60	13/08/2010	10%	13/08/2013	2013	\$19.75	13/08/2015
61	13/08/2010	15%	13/08/2012	2012	\$19.75	13/08/2015
61	13/08/2010	15%	13/08/2013	2013	\$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
74	31/01/2012	10%	31/01/2014	2013	\$12.01	31/01/2017
75	31/01/2012	15%	31/01/2014	2013	\$12.01	31/01/2017
Not vested (time based service condition and performance hurdle not achieved)						
60	13/08/2010	10%	13/08/2014	2014	\$19.75	13/08/2015
61	13/08/2010	15%	13/08/2014	2014	\$19.75	13/08/2015
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
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%	31/01/2015	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

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						
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
94	16/08/2013	5%	16/08/2016	2016	\$18.93	16/08/2019
94	16/08/2013	5%	16/08/2017	2017	\$18.93	16/08/2019
94	16/08/2013	5%	16/08/2018	2018	\$18.93	16/08/2019
95	16/08/2013	5-10%	16/08/2016	2016	\$18.93	16/08/2019
95	16/08/2013	5-10%	16/08/2017	2017	\$18.93	16/08/2019
95	16/08/2013	5-10%	16/08/2018	2018	\$18.93	16/08/2019
96	16/08/2013	5%	16/08/2016	2016	\$0.00	16/08/2019
97	16/08/2013	5-10%	16/08/2016	2016	\$0.00	16/08/2019
98	16/08/2013	5%	16/08/2017	2017	\$0.00	16/08/2019
99	16/08/2013	5-10%	16/08/2017	2017	\$0.00	16/08/2019
100	16/08/2013	5%	16/08/2018	2018	\$0.00	16/08/2019
101	16/08/2013	5-10%	16/08/2018	2018	\$0.00	16/08/2019

- (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 Anthony's restructure charge (\$24.7m post tax).

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Key management personnel equity holdings

Fully paid ordinary shares of JB Hi-Fi Limited

	<i>Balance at 1 July 2013 No.</i>	<i>Granted as compensation No.</i>	<i>Received on exercise of options No.</i>	<i>Net other change No.</i>	<i>Balance at 30 June 2014 No.</i>	<i>Balance held nominally No.</i>
2014						
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	-	-	58,219	(48,219)	10,000	-
T. Smart	1,001,031	-	129,240	(171,031)	959,240	-
R. Murray	118,250	-	41,477	(57,727)	102,000	-
S. Browning	161,536	-	41,258	(161,536)	41,258	-
C. Trainor	2,000	-	-	(1,000)	1,000	1,000
P. Green	13	-	28,333	(28,333)	13	-
G. Papadopoulos	-	-	13,819	(13,819)	-	-
	1,368,588	-	312,346	(481,665)	1,199,269	36,258

	<i>Balance at 1 July 2012 No.</i>	<i>Granted as compensation No.</i>	<i>Received on exercise of options No.</i>	<i>Net other change No.</i>	<i>Balance at 30 June 2013 No.</i>	<i>Balance held nominally No.</i>
2013						
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

Share options of JB Hi-Fi Limited

	<i>Balance at 1 July 2013 No.</i>	<i>Granted as compensation⁽ⁱ⁾ No.</i>	<i>Exercised No.</i>	<i>Net other change No.⁽ⁱⁱ⁾</i>	<i>Balance at 30 June 2014 No.</i>	<i>Balance vested at 30 June 2014 No.</i>	<i>Options vested during year No.</i>
2014							
R. Uechtritz ⁽ⁱ⁾	248,507	–	(58,219)	(190,288)	–	–	–
T. Smart	829,983	103,883	(129,240)	(697,950)	106,676	–	–
R. Murray	361,597	48,214	(41,477)	(56,694)	311,640	–	–
S. Browning	309,160	38,731	(41,258)	(56,258)	250,375	–	–
C. Trainor	359,067	51,279	–	–	410,346	–	–
P. Green	188,682	28,783	(28,333)	–	189,132	–	–
G. Papadopoulos	176,121	28,864	(13,819)	–	191,166	8,818	22,637
	2,473,117	299,754	(312,346)	(1,001,190)	1,459,335	8,818	22,637

- (i) Options were held in respect of R. Uechtritz's role as a consultant to the Group which were granted whilst he was CEO of the Group. The consultancy agreement ended in November 2013.
- (ii) Excludes options issued to S. Browning, C. Trainor, P. Green and G. Papadopoulos in July 2014 and any options that may be granted by the Board in August 2014. The issue of any such options to R. Murray, executive director of the Company, is also subject to shareholder approval at the Company's Annual General Meeting in October 2014.
- (iii) For T. Smart, 587,176 options lapsed on T. Smart's retirement. All other options lapsed during the financial year as they were not exercised prior to expiry.

	<i>Balance at 1 July 2012 No.</i>	<i>Granted as compensation⁽ⁱ⁾ No.</i>	<i>Exercised No.</i>	<i>Net other change No.⁽ⁱⁱ⁾</i>	<i>Balance at 30 June 2013 No.</i>	<i>Balance vested at 30 June 2013 No.</i>	<i>Options vested during year No.</i>
2013							
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, was 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.

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 312,346 options (2013: nil) were exercised by key management personnel. The weighted average exercise price for these options was \$14.01 (2013: \$nil) 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 financial year to the key management personnel:

	<i>Value of options granted – at the grant date⁽ⁱ⁾</i>	<i>Value of options exercised – at the exercise date</i>	<i>Value of options lapsed – at the date of lapse</i>
2014	\$	\$	\$
R. Uechtritz ⁽ⁱⁱ⁾	–	192,705	851,392
T. Smart	688,630	680,849	3,008,893
R. Murray	319,608	261,730	249,275
S. Browning	256,740	217,623	247,156
C. Trainor	369,600	–	–
P. Green	190,795	140,331	–
G. Papadopoulos	191,351	53,133	–
	2,016,724	1,546,371	4,356,716

(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 were held in respect of R. Uechtritz's role as a consultant to the Group which were granted whilst he was CEO of the Group. The consultancy agreement ended in November 2013.

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 the financial year, an aggregate of 299,754 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⁾
94.1	16/08/2013	55,156	\$18.93	\$4.16	16/08/2016	16/08/2019	5%
94.2	16/08/2013	55,156	\$18.93	\$4.16	16/08/2017	16/08/2019	5%
94.3	16/08/2013	55,156	\$18.93	\$4.16	16/08/2018	16/08/2019	5%
95.1	16/08/2013	23,638	\$18.93	\$4.16	16/08/2016	16/08/2019	5%-10%
95.2	16/08/2013	23,638	\$18.93	\$4.16	16/08/2017	16/08/2019	5%-10%
95.3	16/08/2013	23,639	\$18.93	\$4.16	16/08/2018	16/08/2019	5%-10%
96	16/08/2013	14,787	\$0.00	\$16.92	16/08/2016	16/08/2019	5%
97	16/08/2013	6,337	\$0.00	\$16.92	16/08/2016	16/08/2019	5%-10%
98	16/08/2013	14,787	\$0.00	\$16.30	16/08/2017	16/08/2019	5%
99	16/08/2013	6,337	\$0.00	\$16.30	16/08/2017	16/08/2019	5%-10%
100	16/08/2013	14,786	\$0.00	\$15.70	16/08/2018	16/08/2019	5%
101	16/08/2013	6,337	\$0.00	\$15.70	16/08/2018	16/08/2019	5%-10%
		299,754					

(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.

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In addition to the service based vesting condition and the performance condition outlined above, option series 94.1 to 95.3 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	C. Trainor	P. Green	G. Papadopoulos	Total
94.1	19,313	8,963	7,200	8,963	5,351	5,366	55,156
94.2	19,313	8,963	7,200	8,963	5,351	5,366	55,156
94.3	19,312	8,964	7,201	8,963	5,351	5,365	55,156
95.1	8,277	3,841	3,086	3,841	2,293	2,300	23,638
95.2	8,277	3,841	3,086	3,841	2,293	2,300	23,638
95.3	8,276	3,842	3,086	3,842	2,294	2,299	23,639
96	4,927	2,287	1,837	3,002	1,365	1,369	14,787
97	2,111	980	787	1,287	585	587	6,337
98	4,927	2,287	1,837	3,002	1,365	1,369	14,787
99	2,111	980	787	1,287	585	587	6,337
100	4,927	2,286	1,837	3,002	1,365	1,369	14,786
101	2,112	980	787	1,286	585	587	6,337
	103,883	48,214	38,731	51,279	28,783	28,864	299,754

Options exercised during the financial year

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

	Series	Number of options exercised	Exercise date	Number of shares issued	Exercise price \$	Share price at exercise date \$	Performance condition – cumulative EPS growth per annum	Performance condition – achieved
R. Uechtritz	52.1	40,753	13/02/2014	40,753	\$14.92	\$18.23	10%	Yes
	53.1	17,466	13/02/2014	17,466	\$14.92	\$18.23	15%	Yes
		<u>58,219</u>		<u>58,219</u>				
T. Smart	44.1	34,464	22/08/2013	34,464	\$12.98	\$18.71	15%	Yes
	44.2	34,464	22/08/2013	34,464	\$12.98	\$18.71	15%	Yes
	45.1	14,771	22/08/2013	14,771	\$12.98	\$18.71	20%	Yes
	45.2	14,770	22/08/2013	14,770	\$12.98	\$18.71	20%	Yes
	52.1	21,540	22/08/2013	21,540	\$14.92	\$18.71	10%	Yes
	53.1	9,231	22/08/2013	9,231	\$14.92	\$18.71	15%	Yes
		<u>129,240</u>		<u>129,240</u>				
R. Murray	42.2	18,381	13/08/2013	18,381	\$12.98	\$18.96	15%	Yes
	43.2	7,877	13/08/2013	7,877	\$12.98	\$18.96	20%	Yes
	48.1	10,653	31/10/2013	10,653	\$14.92	\$21.80	10%	Yes
	49.1	4,566	31/10/2013	4,566	\$14.92	\$21.80	15%	Yes
		<u>41,477</u>		<u>41,477</u>				
S. Browning	42.2	18,381	13/08/2013	18,381	\$12.98	\$18.96	15%	Yes
	43.2	7,877	13/08/2013	7,877	\$12.98	\$18.96	20%	Yes
	48.1	10,500	13/08/2013	10,500	\$14.92	\$18.96	10%	Yes
	49.1	4,500	13/08/2013	4,500	\$14.92	\$18.96	15%	Yes
		<u>41,258</u>		<u>41,258</u>				

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Options exercised during the financial year (continued)

	Series	Number of options exercised	Exercise date	Number of shares issued	Exercise price \$	Share price at exercise date \$	Performance condition – cumulative EPS growth per annum	Performance condition – achieved
P. Green	41.2	6,667	13/08/2013	6,667	\$12.98	\$18.96	n/a ⁽ⁱ⁾	n/a
	41.3	6,666	13/08/2013	6,666	\$12.98	\$18.96	n/a ⁽ⁱ⁾	n/a
	47.1	5,000	13/08/2013	5,000	\$14.92	\$18.96	n/a ⁽ⁱ⁾	n/a
	47.2	5,000	13/08/2013	5,000	\$14.92	\$18.96	n/a ⁽ⁱ⁾	n/a
	47.3	5,000	13/08/2013	5,000	\$14.92	\$18.96	n/a ⁽ⁱ⁾	n/a
		<u>28,333</u>		<u>28,333</u>				
G. Papadopoulos	65.1	8,819	1/11/2013	8,819	\$18.75	\$21.22	n/a ⁽ⁱ⁾	n/a
	67.1	5,000	1/11/2013	5,000	\$14.95	\$21.22	n/a ⁽ⁱ⁾	n/a
		<u>13,819</u>		<u>13,819</u>				
		<u>312,346</u>		<u>312,346</u>				

(i) Options did not contain a performance condition as they were issued prior to P. Green and G. Papadopoulos becoming executives.

C. Trainor did not exercise any options during the financial year.

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Options lapsed during the financial year

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

	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	44.3	51,696	26/08/2008	26/08/2013	\$12.98	\$19.04	\$6.06
	45.3	22,155	26/08/2008	26/08/2013	\$12.98	\$19.04	\$6.06
	52.2	40,753	29/06/2009	29/06/2014	\$14.92	\$18.15	\$3.23
	52.3	40,753	29/06/2009	29/06/2014	\$14.92	\$18.15	\$3.23
	53.2	17,466	29/06/2009	29/06/2014	\$14.92	\$18.15	\$3.23
	53.3	17,465	29/06/2009	29/06/2014	\$14.92	\$18.15	\$3.23
		<u>190,288</u>					
T. Smart ⁽ⁱ⁾	44.3	34,464	26/08/2008	26/08/2013	\$12.98	\$19.04	\$6.06
	45.3	14,770	26/08/2008	26/08/2013	\$12.98	\$19.04	\$6.06
	52.2	21,539	29/06/2009	29/06/2014	\$14.92	\$18.15	\$3.23
	52.3	21,539	29/06/2009	29/06/2014	\$14.92	\$18.15	\$3.23
	53.2	9,231	29/06/2009	29/06/2014	\$14.92	\$18.15	\$3.23
	53.3	9,231	29/06/2009	29/06/2014	\$14.92	\$18.15	\$3.23
	63.1	26,023	13/08/2010	30/06/2014	\$19.75	\$18.30	–
	63.2	26,023	13/08/2010	30/06/2014	\$19.75	\$18.30	–
	63.3	26,024	13/08/2010	30/06/2014	\$19.75	\$18.30	–
	64.1	11,153	13/08/2010	30/06/2014	\$19.75	\$18.30	–
	64.2	11,153	13/08/2010	30/06/2014	\$19.75	\$18.30	–
	64.3	11,152	13/08/2010	30/06/2014	\$19.75	\$18.30	–
	70.1	36,964	12/08/2011	30/06/2014	\$14.95	\$18.30	\$3.35
	70.2	36,963	12/08/2011	30/06/2014	\$14.95	\$18.30	\$3.35
	70.3	36,963	12/08/2011	30/06/2014	\$14.95	\$18.30	\$3.35
	71.1	15,842	12/08/2011	30/06/2014	\$14.95	\$18.30	\$3.35
	71.2	15,841	12/08/2011	30/06/2014	\$14.95	\$18.30	\$3.35
	71.3	15,841	12/08/2011	30/06/2014	\$14.95	\$18.30	\$3.35
	80.2	64,512	17/08/2012	30/06/2014	\$9.75	\$18.30	\$8.55
	80.3	64,511	17/08/2012	30/06/2014	\$9.75	\$18.30	\$8.55
	81.2	27,648	17/08/2012	30/06/2014	\$9.75	\$18.30	\$8.55
	81.3	27,648	17/08/2012	30/06/2014	\$9.75	\$18.30	\$8.55
	84	10,161	17/08/2012	30/06/2014	\$0.00	\$18.30	\$18.30
	85	4,355	17/08/2012	30/06/2014	\$0.00	\$18.30	\$18.30
	86	10,161	17/08/2012	30/06/2014	\$0.00	\$18.30	\$18.30
	87	4,355	17/08/2012	30/06/2014	\$0.00	\$18.30	\$18.30
	94.1	19,313	16/08/2013	30/06/2014	\$18.93	\$18.30	–
94.2	19,313	16/08/2013	30/06/2014	\$18.93	\$18.30	–	
94.3	19,312	16/08/2013	30/06/2014	\$18.93	\$18.30	–	
95.1	8,277	16/08/2013	30/06/2014	\$18.93	\$18.30	–	
95.2	8,277	16/08/2013	30/06/2014	\$18.93	\$18.30	–	
95.3	8,276	16/08/2013	30/06/2014	\$18.93	\$18.30	–	
96	4,927	16/08/2013	30/06/2014	\$0.00	\$18.30	\$18.30	
97	2,111	16/08/2013	30/06/2014	\$0.00	\$18.30	\$18.30	
98	4,927	16/08/2013	30/06/2014	\$0.00	\$18.30	\$18.30	
99	2,111	16/08/2013	30/06/2014	\$0.00	\$18.30	\$18.30	
100	4,927	16/08/2013	30/06/2014	\$0.00	\$18.30	\$18.30	
101	2,112	16/08/2013	30/06/2014	\$0.00	\$18.30	\$18.30	
		<u>697,950</u>					

(i) Options shown with a lapse date of 30 June 2014 lapsed upon T. Smart's retirement.

Options lapsed during the financial year (continued)

	Series	Number of options lapsed	Grant date	Lapse date	Exercise price \$	Share price at lapse date \$	Fair value per option at lapse date \$
R. Murray	42.3	18,381	26/08/2008	26/08/2013	\$12.98	\$19.04	\$6.06
	43.3	7,877	26/08/2008	26/08/2013	\$12.98	\$19.04	\$6.06
	48.2	10,653	29/06/2009	29/06/2014	\$14.92	\$18.15	\$3.23
	48.3	10,653	29/06/2009	29/06/2014	\$14.92	\$18.15	\$3.23
	49.2	4,565	29/06/2009	29/06/2014	\$14.92	\$18.15	\$3.23
	49.3	4,565	29/06/2009	29/06/2014	\$14.92	\$18.15	\$3.23
		<u>56,694</u>					
S. Browning	42.3	18,381	26/08/2008	26/08/2013	\$12.98	\$19.04	\$6.06
	43.3	7,877	26/08/2008	26/08/2013	\$12.98	\$19.04	\$6.06
	48.2	10,500	29/06/2009	29/06/2014	\$14.92	\$18.15	\$3.23
	48.3	10,500	29/06/2009	29/06/2014	\$14.92	\$18.15	\$3.23
	49.2	4,500	29/06/2009	29/06/2014	\$14.92	\$18.15	\$3.23
	49.3	4,500	29/06/2009	29/06/2014	\$14.92	\$18.15	\$3.23
		<u>56,258</u>					
		<u>1,001,190</u>					

No options issued to C. Trainor, P. Green or G. Papadopoulos lapsed during the financial year.

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

No options issued to key management personnel have been exercised or lapsed since the end of the financial year. The following table summarises the value of options granted since the end of the financial year to the key management personnel:

	Value of options granted – at the grant date ⁽ⁱ⁾ \$
R. Murray	–
S. Browning	199,986
C. Trainor	399,989
P. Green	199,986
G. Papadopoulos	199,986
N. Wells	–
	<u>999,947</u>

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

The value of options granted is calculated based on the fair value of the option at grant date multiplied by the number of options granted.

The number and terms of options granted to the identified key management personnel since the end of the financial year 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
S. Browning	102	01/07/2014	11,661	\$0.00	\$17.15	01/07/2016	01/07/2020	None ⁽ⁱ⁾
C. Trainor	102	01/07/2014	23,323	\$0.00	\$17.15	01/07/2016	01/07/2020	None ⁽ⁱ⁾
P. Green	102	01/07/2014	11,661	\$0.00	\$17.15	01/07/2016	01/07/2020	None ⁽ⁱ⁾
G. Papadopoulos	102	01/07/2014	11,661	\$0.00	\$17.15	01/07/2016	01/07/2020	None ⁽ⁱ⁾
			<u>58,306</u>					

(i) Refer page 39 regarding one-off grant of LTIs aimed at retention of ongoing executives.

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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

11 August 2014

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 2014, 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



Andrew Reid
Partner
Chartered Accountants

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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 2014, 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 61 to 106.

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 as given to the directors as at the time of this auditor's report.

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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 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 28 to 57 of the directors' report for the year ended 30 June 2014. 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 2014, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Andrew Reid
Partner
Chartered Accountants

Melbourne,
11 August 2014

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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 35 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,

11 August 2014



Richard Murray

Chief Executive Officer

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STATEMENT OF PROFIT OR LOSS
for the financial year ended 30 June 2014

	Notes	Consolidated	
		2014 \$'000	2013 \$'000
Revenue	3	3,483,775	3,308,396
Cost of sales		(2,727,794)	(2,596,194)
Gross profit		755,981	712,202
Other income	4	520	574
Sales and marketing expenses		(355,694)	(336,831)
Occupancy expenses		(148,969)	(140,249)
Administration expenses		(27,600)	(27,239)
Other expenses		(32,716)	(30,249)
Finance costs	5	(8,845)	(10,156)
Profit before tax		182,677	168,052
Income tax expense	6	(54,230)	(51,420)
Profit for the year		128,447	116,632
Attributable to:			
Owners of the Company		128,359	116,383
Non-controlling interests		88	249
		128,447	116,632
		<i>Cents</i>	<i>Cents</i>
Earnings per share			
Basic (cents per share)	30	128.39	117.70
Diluted (cents per share)	30	126.89	117.02

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

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the financial year ended 30 June 2014

		Consolidated	
		2014	2013
		\$'000	\$'000
	Notes		
Profit for the year		128,447	116,632
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Changes in the fair value of cash flow hedges (net of tax)	28(a)	576	800
Exchange differences on translation of foreign operations	28(a)	4,728	3,162
Other comprehensive income for the year (net of tax)		5,304	3,962
Total comprehensive income for the year		133,751	120,594
Total comprehensive income is attributable to:			
Owners of the Company		133,663	120,345
Non-controlling interests		88	249
		133,751	120,594

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

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BALANCE SHEET
as at 30 June 2014

		Consolidated	
		2014	2013
		\$'000	\$'000
	Notes		
ASSETS			
Current assets			
Cash and cash equivalents	10	43,445	67,368
Trade and other receivables	11	70,745	64,246
Inventories	12	458,625	426,000
Other current assets	13	5,332	6,038
Total current assets		578,147	563,652
Non-current assets			
Other financial assets	14	3	3
Plant and equipment	15	181,564	181,098
Deferred tax assets	16	14,909	14,839
Intangible assets	17	85,218	83,712
Total non-current assets		281,694	279,652
Total assets		859,841	843,304
LIABILITIES			
Current liabilities			
Trade and other payables	18	302,979	387,020
Other financial liabilities	19	79	956
Current tax liabilities	20	8,184	14,932
Provisions	21	36,840	36,391
Other current liabilities	22	4,111	3,080
Total current liabilities		352,193	442,379
Non-current liabilities			
Borrowings	23	179,653	124,331
Provisions	24	8,699	9,416
Other non-current liabilities	25	24,638	23,350
Other financial liabilities	26	25	-
Total non-current liabilities		213,015	157,097
Total liabilities		565,208	599,476
Net assets		294,633	243,828
EQUITY			
Contributed equity	27	58,383	62,774
Reserves	28(a)	16,265	11,762
Retained earnings	28(b)	219,985	168,809
Equity attributable to owners of the Company		294,633	243,345
Non-controlling interests	29	-	483
Total equity		294,633	243,828

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

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STATEMENT OF CHANGES IN EQUITY
for the financial year ended 30 June 2014

**Attributable to owners of
JB Hi-Fi Limited**

	Notes	Contributed equity \$'000	Equity settled benefits reserve \$'000	Foreign currency translation reserve \$'000	Hedging reserve - interest rate swaps \$'000	Hedging reserve - net investment \$'000	Common control reserve \$'000	Retained earnings \$'000	Total \$'000	Non- controlling interests \$'000	Total equity \$'000
Consolidated											
Balance at 1 July 2012		61,692	11,242	(4,300)	(1,447)	850	(1,225)	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		-	-	3,162	800	-	-	116,383	120,345	249	120,594
Issue of shares under share option plans	27	1,082	-	-	-	-	-	-	1,082	-	1,082
Dividends provided for or paid	31	-	-	-	-	-	-	(65,263)	(65,263)	-	(65,263)
Share-based payments - expense	28	-	2,680	-	-	-	-	-	2,680	-	2,680
Non-controlling interests on acquisition of subsidiary	39	-	-	-	-	-	-	-	-	234	234
Balance at 30 June 2013		62,774	13,922	(1,138)	(647)	850	(1,225)	168,809	243,345	483	243,828
Balance at 1 July 2013		62,774	13,922	(1,138)	(647)	850	(1,225)	168,809	243,345	483	243,828
Profit for the year		-	-	-	-	-	-	128,359	128,359	88	128,447
Cash flow hedges (net of tax)	28	-	-	-	576	-	-	-	576	-	576
Exchange difference on translation of foreign operations	28	-	-	4,728	-	-	-	-	4,728	-	4,728
Total comprehensive income for the year		-	-	4,728	576	-	-	128,359	133,663	88	133,751
Issue of shares under share option plans	27	21,523	-	-	-	-	-	-	21,523	-	21,523
Share buy-back	27	(25,830)	-	-	-	-	-	-	(25,830)	-	(25,830)
Share issue and buy-back costs (net of tax)	27	(84)	-	-	-	-	-	-	(84)	-	(84)
Dividends provided for or paid	31	-	-	-	-	-	-	(77,183)	(77,183)	-	(77,183)
Acquisition of non-controlling interests	34	-	-	-	-	-	(4,829)	-	(4,829)	(571)	(5,400)
Share-based payments - expense	28	-	3,592	-	-	-	-	-	3,592	-	3,592
Share-based payments - income tax	28	-	436	-	-	-	-	-	436	-	436
Balance at 30 June 2014		58,383	17,950	3,590	(71)	850	(6,054)	219,985	294,633	-	294,633

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

STATEMENT OF CASH FLOWS
for the financial year ended 30 June 2014

	Notes	Consolidated	
		2014 \$'000	2013 \$'000
Cash flows from operating activities			
Receipts from customers		3,832,979	3,646,509
Payments to suppliers and employees		(3,723,982)	(3,442,104)
Interest and bill discounts received		402	455
Interest and other finance costs paid		(7,496)	(8,896)
Income taxes paid		(60,577)	(39,554)
Net cash inflow from operating activities	41	41,326	156,410
Cash flows from investing activities			
Payments for acquisition of subsidiary, net of cash acquired	39	-	(4,197)
Acquisition of non-controlling interests	34	(3,000)	-
Payments for plant and equipment	15	(35,914)	(35,307)
Proceeds from sale of plant and equipment		674	1,203
Net cash (outflow) from investing activities		(38,240)	(38,301)
Cash flows from financing activities			
Proceeds from issues of equity securities	27	21,523	1,082
Proceeds / (repayment) of borrowings		54,063	(26,210)
Payments for debt issue costs		(64)	(632)
Payment for shares bought back	27	(25,830)	-
Share issue and buy-back costs		(118)	-
Dividends paid to owners of the Company	31	(77,183)	(65,263)
Net cash (outflow) from financing activities		(27,609)	(91,023)
Net (decrease) / increase in cash and cash equivalents		(24,523)	27,086
Cash and cash equivalents at the beginning of the financial year		67,368	39,710
Effects of exchange rate changes on cash and cash equivalents		600	572
Cash and cash equivalents at end of year	10	43,445	67,368

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

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NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2014

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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. For the purposes of preparing the consolidated financial statements the Company is a for-profit entity.

(a) Basis of preparation

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

(i) Compliance with IFRS

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

(ii) Historical cost convention

These financial statements have been prepared under the historical cost convention, 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 11 August 2014.

(b) Rounding off 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 2014 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) which are controlled by the Company. Control is achieved when the Company:

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

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Principles of consolidation (continued)

(i) Subsidiaries (continued)

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.

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 (the common control reserve).

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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(f) Business combinations (continued)**

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.

(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 42. 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'.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Derivatives and hedging activities (continued)

(i) Cash flow hedge (continued)

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

(ii) Net investment hedges

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

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

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

(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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(l) Foreign currency translation (continued)***(ii) Transactions and balances (continued)*

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

(iii) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each 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).

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax (continued)

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

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

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

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

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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Intangible assets (continued)

(i) Goodwill (continued)

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.

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. The Company gave due consideration to the technical and commercial life of the brand names and registered trademarks to determine their useful life and have assessed them to have an indefinite life and are not amortised. Each period, the useful life of these assets are reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the assets. 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 Company 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. Each period, the useful life 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).

(iv) Location premiums

Location premiums represent the amounts paid to secure the rights to prime retail lease space. The Company gave due consideration to the technical and commercial life of the location premiums to determine their useful life and have assessed them to 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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

- (i) AASB 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*
- (ii) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*
- (iii) Revised AASB 119 *Employee Benefits* and, AASB 2012-10 *Amendments to Australian Accounting Standards arising from AASB 119*
- (iv) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*
- (v) AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosure - Offsetting Financial Assets and Financial Liabilities*
- (vi) AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements from 2009-2011 Cycle*

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. The adoption of AASB 10 Consolidated Financial Statements has also resulted in the updating of the Group's principles of consolidation accounting policy (note 1(c)) to reflect the new guidance contained in the updated standard however this has had no impact on the financial statements of the Group.

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

- (i) AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB9*, AASB 2012-6 *Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, and AASB 2013-9 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments (Part C - Financial Instruments)* (effective 1 January 2017)
- (ii) AASB 1031 *Materiality* (effective 1 January 2014)
- (iii) AASB 2012-3 *Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities* (effective 1 January 2014)
- (iv) AASB 2013-3 *Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets* (effective 1 January 2014)
- (v) AASB 2013-4 *Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting* (effective 1 January 2014)
- (vi) AASB 2013-9 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments* (effective 1 January 2014)

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.

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 management's assessment of the likelihood of the vesting conditions attached to the equity instruments being satisfied. The key vesting conditions that are assessed are earnings per share targets and required service periods. The impact of any revision in the number of equity instruments that are expected to vest is recognised as an adjustment to the share based payments expense in the reporting period that the revision is made and is disclosed in note 5.

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		Consolidated	
		2014 \$'000	2013 \$'000
3	REVENUE		
	Sale of goods and services	3,483,775	3,308,396
4	OTHER INCOME		
	Interest received - banks	402	455
	Other income	118	119
		520	574
5	EXPENSES		
	Profit before income tax includes the following specific expenses:		
	<i>Depreciation</i>		
	Depreciation - Plant and equipment	21,869	20,544
	Depreciation - Leasehold improvements	13,661	12,688
		35,530	33,232
	<i>Impairment</i>		
	Impairment - Plant and equipment	-	1,143
	Impairment - Leasehold improvements	-	431
		-	1,574
	Total depreciation and impairment	35,530	34,806
	<i>Finance costs</i>		
	Interest on loans	7,537	8,702
	Fair value loss on interest swaps designated as cash flow hedges - transfer from equity	937	1,210
	Other interest expense	371	244
		8,845	10,156
	<i>Rental expense relating to operating leases</i>		
	Minimum lease payments	87,114	82,056
	<i>Employee benefits expenses</i>		
	Defined contribution superannuation expense	25,793	23,807
	Share-based payments - expense	3,592	2,680
	Other employee benefits	322,030	308,337
		351,415	334,824
	Net foreign exchange (gains)/losses	27	(1)
	Net loss on disposal of plant and equipment	382	1,287
	Inventory shrinkage ⁽ⁱ⁾	17,317	13,490

(i) Shrinkage as a percentage of sales was 0.50% (2013: 0.41%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2014

	Consolidated	
	<i>2014</i> \$'000	<i>2013</i> \$'000
6 INCOME TAX EXPENSE		
(a) Income tax expense		
Current tax	54,196	49,944
Deferred tax	34	1,476
	54,230	51,420
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	182,677	168,052
Tax at the Australian tax rate of 30.0% (2013: 30.0%)	54,803	50,416
Effect of expenses that are not deductible in determining taxable profit	1,325	1,042
Effect of different tax rates of subsidiaries operating in other jurisdictions	(56)	(38)
Effect of other deductibles in determining taxable profit	(1,596)	-
Other	(246)	-
	54,230	51,420
(c) Amounts recognised directly in equity		
The following current and deferred amounts were charged directly to equity during the period:		
<i>Current tax</i>		
Tax effect of employee share options in reserves	(436)	-
<i>Deferred tax</i>		
Tax effect of hedge gains/(loss) in reserves	245	345
Tax effect of share issue costs charged to issued capital	(35)	-
	(226)	345

(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.

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6 INCOME TAX EXPENSE (continued)

(d) Tax consolidation legislation (continued)

Investments within tax-consolidated groups

JB Hi-Fi calculates deferred taxes in relation to investments within the tax-consolidated group using the 'change in tax status' view. Under this view, an entity leaving a the tax-consolidated group would be considered a voluntary change in tax status, i.e. the entity no longer is taxed as part of the tax-consolidated group, but is taxed either as a stand-alone taxpayer, or alternatively as part of another tax-consolidated group (with different reset tax values).

This view results in no deferred tax being recognised until such time as an entity leaves the tax-consolidated group. Whilst the entity was a member of the group, the investment would be considered to have no tax consequences because all transactions and balances between entities in the tax-consolidated group are ignored for tax purposes. This approach is consistent with the option of treating the pre-implementation effects of tax consolidation as a change in tax status.

	Consolidated	
	2014 \$	2013 \$
7 KEY MANAGEMENT PERSONNEL DISCLOSURES		
The aggregate compensation of the key management personnel of the Group is set out below:		
Short-term employee benefits	9,686,643	8,454,098
Post-employment benefits	229,611	236,285
Share-based payments expense	863,410	640,921
	10,779,664	9,331,304

Detailed remuneration disclosures are provided in the remuneration report on pages 28 to 57.

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 generally one month after the executive's or non-executive manager's resignation, whichever is earlier, however the Company may exercise its discretion to allow options to continue in certain circumstances.

All options issued to executives under the Group's long term incentive program until 30 June 2014 include performance hurdles requiring compound annual EPS growth of between 5% and 20%, with options issued to executives during the year ended 30 June 2014 having an EPS growth performance hurdle of between 5% and 10%.

Some options issued under the Group's share option plans during the year ended 30 June 2014 were granted at a zero exercise price, which has affected the weighted average exercise price of the options granted during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2014

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
2014					
Outstanding Share Options	4,817,585	507,975	(2,532,345)	2,793,215	134,163
Weighted average exercise price	\$13.07	\$8.81	\$14.42	\$10.85	\$18.98

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

The weighted average remaining contractual life of share options outstanding at the end of the period was 1,050 days (2013: 970 days).

Fair value of options granted

The weighted average fair value of options granted during the year ended 30 June 2014 was \$10.91 (2013: \$4.11). 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 2014 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 28 to 57.

	Consolidated	
	2014 \$	2013 \$
9 REMUNERATION OF AUDITORS		
<i>Audit and other services</i>		
Audit and review of group financial statements	314,000	307,250
Audit and review of subsidiary financial statements	28,250	77,750
Other services (2014: None, 2013: IT systems review)	-	25,000
Total remuneration for audit and other services	342,250	410,000

The auditor of the Group is Deloitte Touche Tohmatsu.

	Consolidated	
	2014 \$'000	2013 \$'000
10 CURRENT ASSETS - CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	43,445	67,368
11 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES		
Trade receivables	24,071	20,322
Allowance for doubtful debts	(449)	(331)
	23,622	19,991
Non-trade receivables	47,123	44,255
	70,745	64,246

(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	
	2014 \$'000	2013 \$'000
(b) Ageing of trade receivables		
Not past due	21,407	19,334
Past due but not impaired:		
0 - 30 days	1,541	566
31 - 60 days	660	41
61 - 90 days	14	50
91+ days	-	-
	23,622	19,991
(c) Movements in allowance for doubtful debts		
Balance at the beginning of the year	331	564
Provision for impairment recognised during the year	120	-
Receivables written off during the year as uncollectable	(2)	(70)
Impairments reversed during the year	-	(163)
	449	331
(d) Ageing of impaired trade receivables		
0 - 31 days	-	-
31 - 60 days	8	-
61 - 90 days	239	16
91+ days	202	315
	449	331

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2014

	Consolidated	
	2014 \$'000	2013 \$'000
12 CURRENT ASSETS - INVENTORIES		
Finished goods	458,625	426,000
13 CURRENT ASSETS - OTHER CURRENT ASSETS		
Prepayments	3,712	4,260
Deposits	1,620	1,778
	5,332	6,038
14 NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS		
Equity securities	3	3

	<i>Plant and equipment \$'000</i>	<i>Leasehold improvements \$'000</i>	<i>Total \$'000</i>
15 NON-CURRENT ASSETS - PLANT AND EQUIPMENT			
At 1 July 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
Year ended 30 June 2014			
Opening net book amount	114,751	66,347	181,098
Exchange differences	667	471	1,138
Additions	25,392	10,522	35,914
Disposals	(991)	(65)	(1,056)
Depreciation charge	(21,869)	(13,661)	(35,530)
Closing net book amount	117,950	63,614	181,564
At 30 June 2014			
Cost	231,173	135,119	366,292
Accumulated depreciation and impairment	(113,223)	(71,505)	(184,728)
Net book amount	117,950	63,614	181,564

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	Consolidated	
	2014 \$'000	2013 \$'000
16 NON-CURRENT ASSETS - DEFERRED TAX ASSETS		
The balance comprises temporary differences attributable to:		
Deferred tax assets		
Tax losses	1,597	2,284
Provisions	20,529	19,641
Trade and other receivables	132	97
Inventories	2,592	2,440
Trade and other payables	810	654
Cash flow hedges	32	289
	25,692	25,405
Deferred tax liabilities		
Trade and other receivables	(1,899)	(2,710)
Plant and equipment	(8,884)	(7,856)
	(10,783)	(10,566)
Net deferred tax assets	14,909	14,839

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 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
At 1 July 2013	2,284	19,641	(2,613)	2,440	654	(7,856)	289	14,839
Charged to income	(687)	888	846	152	156	(1,028)	(293)	34
Charged to equity	-	-	-	-	-	-	36	36
At 30 June 2014	1,597	20,529	(1,767)	2,592	810	(8,884)	32	14,909

	Goodwill \$'000	Brandnames \$'000	Location premiums \$'000	Rights to profit share \$'000	Total \$'000
17 NON-CURRENT ASSETS - INTANGIBLE ASSETS					
Year ended 30 June 2013					
Opening net book amount	29,818	43,094	2,388	3,542	78,842
Additions - business combinations (note 39)	3,953	-	-	-	3,953
Exchange differences	917	-	-	-	917
Closing net book amount	34,688	43,094	2,388	3,542	83,712
Year ended 30 June 2014					
Opening net book amount	34,688	43,094	2,388	3,542	83,712
Adjustment on finalisation of fair value of identifiable net assets (note 39)	165	-	-	-	165
Exchange differences	1,341	-	-	-	1,341
Closing net book amount	36,194	43,094	2,388	3,542	85,218

17 NON-CURRENT ASSETS - INTANGIBLE ASSETS (continued)

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

The recoverable amount of these 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	
	<i>2014</i> \$'000	<i>2013</i> \$'000
JB Hi-Fi Australia	13,724	13,724
Impact Records (store acquisition)	1,727	1,727
JB Hi-Fi New Zealand	14,346	13,005
Rocket Replacements (commercial division)	2,279	2,279
Network Neighborhood (commercial division)	4,118	3,953
	36,194	34,688

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 (2013: 11.0%) and 11.5% for JB Hi-Fi New Zealand (2013: 11.5%). The cash flows beyond the budget period have been extrapolated using a steady 2% long term growth rate (2013: 2%) which is consistent with the projected long term average growth rate for the consumer products market.

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

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

	Consolidated	
	<i>2014</i> \$'000	<i>2013</i> \$'000
18 CURRENT LIABILITIES - TRADE AND OTHER PAYABLES		
Trade payables	244,436	334,924
Goods and services tax (GST) payable	15,858	12,669
Other creditors and accruals	13,429	13,588
Deferred income	29,256	25,839
	302,979	387,020

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		Consolidated	
		2014 \$'000	2013 \$'000
19 CURRENT LIABILITIES - OTHER FINANCIAL LIABILITIES			
	Interest rate swap	79	956
20 CURRENT LIABILITIES - CURRENT TAX LIABILITIES			
	Income tax	8,184	14,932
21 CURRENT LIABILITIES - PROVISIONS			
	Employee benefits ⁽ⁱ⁾	35,208	35,111
	Lease provision ⁽ⁱⁱ⁾	1,632	1,280
		36,840	36,391

(i) The current provision for employee benefits includes \$3,752 thousand of annual leave accrued but not expected to be taken within 12 months (2013: \$3,595 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	
		2014 \$'000	2013 \$'000
22 CURRENT LIABILITIES - OTHER CURRENT LIABILITIES			
	Lease accrual	1,777	1,155
	Lease incentive	2,334	1,925
		4,111	3,080
23 NON-CURRENT LIABILITIES - BORROWINGS			
Unsecured			
	Bank loans	179,653	124,331
	Financial covenants in relation to the above bank loans are disclosed in note 27(d).		
24 NON-CURRENT LIABILITIES - PROVISIONS			
	Employee benefits	4,162	3,747
	Lease provision ⁽ⁱ⁾	4,537	5,522
	Other provisions	-	147
		8,699	9,416

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2014

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 - 2014	<i>Lease provision⁽ⁱ⁾ \$'000</i>	<i>Other \$'000</i>	<i>Total \$'000</i>
Carrying amount at start of year	6,802	147	6,949
Additional provisions recognised	1,042	-	1,042
Amounts used during the year	(1,675)	(147)	(1,822)
Carrying amount at end of year	6,169	-	6,169

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

	Consolidated	
	<i>2014 \$'000</i>	<i>2013 \$'000</i>
25 NON-CURRENT LIABILITIES - OTHER NON-CURRENT LIABILITIES		
Lease accrual	13,186	13,558
Lease incentive	11,452	9,792
	24,638	23,350
26 NON-CURRENT LIABILITIES - OTHER FINANCIAL LIABILITIES		
Interest rate swap	25	-

	Parent entity		Parent entity	
	<i>2014 Shares</i>	<i>2013 Shares</i>	<i>2014 \$'000</i>	<i>2013 \$'000</i>
27 CONTRIBUTED EQUITY				
(a) Share capital				
Ordinary shares - fully paid	98,947,309	98,947,309	58,383	62,774

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

<i>Date</i>	<i>Details</i>	<i>Number of shares</i>	<i>\$'000</i>
1 July 2012	Opening balance	98,850,643	61,692
	Issue of shares under the share option plans	96,666	1,082
30 June 2013	Closing balance	98,947,309	62,774
1 July 2013	Opening balance	98,947,309	62,774
	Issue of shares under the share option plans	1,438,091	21,523
	Share issue costs (net of tax)	-	(66)
	Share buy-back	(1,438,091)	(25,830)
	Share buy-back costs (net of tax)	-	(18)
30 June 2014	Closing balance	98,947,309	58,383

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

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27 CONTRIBUTED EQUITY (continued)

(c) Share options

In accordance with the provisions of the Company's share option plans, as at 30 June 2014, executives and non-executive management have options over 2,798,881 ordinary shares (of which 2,663,051 were unvested), in aggregate, with various expiry dates.

As at 30 June 2013, executives and non-executive management had options over 4,817,585 ordinary shares (of which 3,828,056 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 65% of net profit after tax as it seeks to strike a balance between shareholder returns and ensuring adequate capital is retained for the growth of the business so as to maximise long term shareholder returns.

The Group's return on invested capital and gearing ratios as at 30 June 2014 and 30 June 2013 were as follows:

	Consolidated	
	2014 \$'000	2013 \$'000
Return on invested capital		
Profit before tax	182,677	168,052
Net finance costs	8,443	9,701
EBIT	191,120	177,753
Borrowings	179,653	124,331
Cash and cash equivalents	(43,445)	(67,368)
Net debt	136,208	56,963
Total equity	294,633	243,828
Invested capital	430,841	300,791
Return on invested capital	44.4%	59.1%
Gearing		
Term debt	180,000	125,000
EBIT	191,120	177,753
Depreciation and amortisation	35,530	33,232
EBITDA	226,650	210,985
Net loss on disposal of plant and equipment ⁽ⁱ⁾	382	1,287
Fixed rent expense ⁽ⁱ⁾	179	1,243
Share based payments expense ⁽ⁱ⁾	3,592	2,680
Adjusted EBITDA	230,803	216,195
Gearing	0.78	0.58

(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 to the banks. The Group has complied with all such requirements during the current and previous year.

	Notes	Consolidated	
		2014 \$'000	2013 \$'000
28 RESERVES AND RETAINED EARNINGS			
(a) Reserves			
Hedging reserve - interest rate swaps		(71)	(647)
Equity-settled benefits		17,950	13,922
Hedging reserve - net investment		850	850
Foreign currency translation reserve		3,590	(1,138)
Common control reserve		(6,054)	(1,225)
		16,265	11,762
Movements:			
<i>Hedging reserve - interest rate swaps</i>			
Balance 1 July		(647)	(1,447)
(Loss)/gain recognised		(116)	(65)
Deferred tax		36	20
Transferred to profit or loss		937	1,210
Deferred tax		(281)	(365)
Balance 30 June		(71)	(647)
<i>Equity-settled benefits</i>			
Balance 1 July		13,922	11,242
Share-based payments - expense		3,592	2,680
Share-based payments - income tax		436	-
Balance 30 June		17,950	13,922
<i>Hedging reserve - net investment</i>			
Balance 1 July		850	850
Gain/(loss) recognised		-	-
Balance 30 June		850	850

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		Consolidated	
		2014 \$'000	2013 \$'000
		Notes	
28 RESERVES AND RETAINED EARNINGS (continued)			
(a) Reserves (continued)			
<i>Foreign currency translation reserve</i>			
Balance 1 July		(1,138)	(4,300)
Currency translation differences arising during the year		4,728	3,162
Balance 30 June		3,590	(1,138)
<i>Common control reserve</i>			
Balance 1 July		(1,225)	(1,225)
Acquisition of non-controlling interests	34	(4,829)	-
Balance 30 June		(6,054)	(1,225)
(b) Retained earnings			
Movements in retained earnings were as follows:			
Balance 1 July		168,809	117,689
Profit for the year attributable to owners of the Company		128,359	116,383
Dividends provided for or paid		(77,183)	(65,263)
Balance 30 June		219,985	168,809

(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) Common control reserve

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2014

	2014 \$'000	2013 \$'000
29 NON-CONTROLLING INTERESTS		
Balance at beginning of year	483	-
Non-controlling interest on the acquisition of Network Neighborhood Pty Ltd (note 39)	-	234
Profit attributable to non-controlling interest	88	249
Acquisition of non-controlling interests (note 34)	(571)	-
Balance at end of year	-	483

Consolidated

	2014 Cents	2013 Cents
30 EARNINGS PER SHARE		
Basic (cents per share)	128.39	117.70
Diluted (cents per share)	126.89	117.02

Consolidated

	2014 \$'000	2013 \$'000
(a) Reconciliation of earnings used in calculating earnings per share		
<i>Basic earnings per share</i>		
Profit for the year attributable to owners of the Company	128,359	116,383
<i>Diluted earnings per share</i>		
Profit for the year attributable to owners of the Company	128,359	116,383

Consolidated

	2014 Number '000	2013 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	99,975	98,884
Adjustments for calculation of diluted earnings per share:		
Options	1,186	569
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	101,161	99,453

(c) Information concerning the classification of securities

Options

Options granted under the Company's share option plans are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive (1,186,484 options are considered dilutive (2013: 569,371), 1,560,673 are considered anti-dilutive (2013: 4,068,558)). 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.

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	2014		2013	
	<i>Cents per share</i>	<i>\$'000</i>	<i>Cents per share</i>	<i>\$'000</i>
31 DIVIDENDS				
Recognised amounts				
Final Dividend - previous financial year	22.00	21,973	16.00	15,816
Interim Dividend - current financial year	55.00	55,210	50.00	49,447
	77.00	77,183	66.00	65,263
Unrecognised amounts				
Final Dividend - current financial year	29.00	28,695	22.00	21,973

In respect of the financial year ended 30 June 2014, the directors have recommended the payment of a final dividend of 29.0 cents per share. The record date is 22 August 2014.

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

	Consolidated entity	
	<i>2014 \$'000</i>	<i>2013 \$'000</i>
(a) Franking account balance		
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2013: 30.0%)	111,111	90,881

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 \$12,298 thousand (2013: \$9,417 thousand).

32 COMMITMENTS

(a) Non-cancellable operating leases

Operating leases relate to stores with lease terms of between five to fifteen years, with, in some cases an option to extend.

Operating lease contracts generally contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

	Consolidated	
	<i>2014 \$'000</i>	<i>2013 \$'000</i>
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	72,361	71,083
Later than one year but not later than five years	214,621	232,079
Later than five years	71,249	95,313
	358,231	398,475

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2014

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):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2014 %	2013 %
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
Network Neighborhood Pty Ltd ⁽ⁱⁱⁱ⁾	Australia	Ordinary	100	51
JB Hi-Fi Group (NZ) Limited	New Zealand	Ordinary	100	100
JB Hi-Fi NZ Limited	New Zealand	Ordinary	100	100

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

(ii) These wholly owned subsidiaries are members of the tax consolidated group, Network Neighborhood Pty Ltd joined the tax consolidated group on 22 November 2013.

(iii) On 19 February 2013, JB Hi-Fi Limited acquired 51% of the share capital of Network Neighborhood Pty Ltd, refer note 39 for details. On 22 November 2013, JB Hi-Fi Limited acquired the remaining 49% of the issued shares of Network Neighborhood Pty Ltd, refer to note 34 for details. On 29 July 2014 Network Neighborhood Pty Ltd changed its name to JB Hi-Fi Education Solutions Pty Ltd.

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 ACQUISITION OF NON-CONTROLLING INTERESTS

On 22 November 2013, JB Hi-Fi Limited acquired the remaining 49% of the issued shares of Network Neighborhood Pty Ltd for a purchase consideration of \$5,400 thousand of which \$3,000 thousand was paid in the financial year ended 30 June 2014 and the remaining \$2,400 thousand was paid in the financial year ended 30 June 2015. The excess of the purchase consideration over the non-controlling interest at the date of acquisition was recognised in the common control reserve within equity attributable to owners of JB Hi-Fi Limited. The effect of the change in ownership interest of Network Neighborhood Pty Ltd on the common control reserve during the year is summarised as follows:

	\$'000
Consideration paid to non-controlling interests	3,000
Deferred consideration payable to non-controlling interest	2,400
Total consideration	5,400
Less: carrying amount of non-controlling interests acquired	(571)
Excess of consideration paid over non-controlling interests	4,829

35 DEED OF CROSS GUARANTEE

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

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

	2014 \$'000	2013 \$'000
(a) Consolidated statement of profit or loss, statement of profit or loss and other comprehensive income		
Statement of profit or loss		
Revenue	3,292,848	3,132,242
Cost of sales	(2,571,287)	(2,451,511)
Gross profit	721,561	680,731
Other income	423	544
Sales and marketing expenses	(336,515)	(319,314)
Occupancy expenses	(139,536)	(131,779)
Administration expenses	(26,149)	(25,726)
Finance costs	(8,736)	(10,125)
Other expenses	(31,155)	(28,888)
Profit before income tax	179,893	165,443
Income tax expense	(53,463)	(50,653)
Profit for the year	126,430	114,790
Statement of profit or loss and other comprehensive income		
Profit for the year	126,430	114,790
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges (net of tax)	576	800
Other comprehensive income for the year (net of tax)	576	800
Total comprehensive income for the year	127,006	115,590

35 DEED OF CROSS GUARANTEE (continued)

	2014 \$'000	2013 \$'000
(b) Balance sheet		
Current assets		
Cash and cash equivalents	42,859	58,863
Trade and other receivables	67,056	59,102
Inventories	421,304	397,460
Other	5,248	5,879
Total current assets	536,467	521,304
Non-current assets		
Other financial assets	51,644	56,328
Plant and equipment	170,763	169,354
Deferred tax assets	12,861	12,159
Intangible assets	70,873	66,755
Total non-current assets	306,141	304,596
Total assets	842,608	825,900
Current liabilities		
Trade and other payables	288,552	367,143
Current tax liabilities	8,235	14,734
Provisions	35,503	34,579
Other financial liabilities	79	956
Other	3,969	2,952
Total current liabilities	336,338	420,364
Non-current liabilities		
Borrowings	179,653	124,331
Provisions	8,699	9,416
Other financial liabilities	25	-
Other	23,631	22,330
Total non-current liabilities	212,008	156,077
Total liabilities	548,346	576,441
Net assets	294,262	249,459
Equity		
Contributed equity	58,383	62,774
Reserves	12,675	12,901
Retained earnings	223,204	173,784
Total equity	294,262	249,459

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36 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 2014 is as follows:

2014	<i>Australia</i> \$'000	<i>New Zealand</i> \$'000	<i>Total</i> \$'000
Revenue from external customers	3,292,848	190,927	3,483,775
Operating EBITDA	221,611	5,039	226,650
Total segment assets	842,608	69,001	911,609
Additions to plant and equipment	35,592	322	35,914
Depreciation and impairment	33,304	2,226	35,530
Total segment liabilities	548,346	16,987	565,333

2013	<i>Australia</i> \$'000	<i>New Zealand</i> \$'000	<i>Total</i> \$'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

(i) 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	
	<i>2014</i> \$'000	<i>2013</i> \$'000
Operating EBITDA	226,650	210,985
Interest revenue	402	455
Finance costs	(8,845)	(10,156)
Depreciation	(35,530)	(33,232)
Profit before income tax from continuing operations	182,677	168,052

36 SEGMENT INFORMATION (continued)

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

(ii) 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	
	<i>2014</i> \$'000	<i>2013</i> \$'000
Segment assets	911,609	895,074
Intersegment eliminations	(51,768)	(51,770)
Total assets as per the balance sheet	859,841	843,304

(iii) 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	
	<i>2014</i> \$'000	<i>2013</i> \$'000
Segment liabilities	565,333	599,600
Intersegment eliminations	(125)	(124)
Total liabilities as per the balance sheet	565,208	599,476

(c) Product information

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

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	Parent Entity	
	2014 \$'000	2013 \$'000
37 PARENT ENTITY FINANCIAL INFORMATION		
Assets		
Current assets	4,331	1,564
Non-current assets	85,912	93,494
Total assets	90,243	95,058
Liabilities		
Current liabilities	10,154	14,734
Total liabilities	10,154	14,734
Shareholders' equity		
Contributed equity	58,383	62,774
Reserves	17,950	13,922
Retained earnings	3,754	3,628
	80,087	80,324
Profit or loss for the year	77,309	66,563
Total comprehensive income	77,309	66,563

38 RELATED PARTY TRANSACTIONS

(a) Parent entity

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

(b) Equity interests in related parties

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 33.

(c) Key management personnel

Richard Uechtritz acted as a consultant to the Group from May 2010 to November 2013. Richard Uechtritz's remuneration for his services as a consultant was 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 the remuneration report on pages 28 to 57.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2014

39 BUSINESS COMBINATION

2014

No subsidiaries were acquired during the current financial year. However, on 22 November 2013 the parent entity acquired the non-controlling interests of Network Neighborhood Pty Ltd, refer to note 34 for details.

2013

(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 was 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 on 19 February 2013 were as follows:

	\$'000
<hr/>	
(i) <i>Purchase consideration:</i>	
Cash paid	4,197
	<hr/>
	<i>Fair value</i>
	<i>\$'000</i>
<hr/>	
(ii) <i>The assets and liabilities recognised at the date of the acquisition are as follows:</i>	
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	(495)
	<hr/>
Net assets acquired	313
	<hr/>
	\$'000
<hr/>	
(iii) <i>The goodwill arising on the acquisition is as follows:</i>	
Consideration transferred	4,197
Plus: non-controlling interests	234
Less: fair value of identifiable net assets	(313)
Goodwill arising on acquisition	4,118
	<hr/>

The Network Neighborhood Pty Ltd acquisition was disclosed provisionally in the financial report for the year ended 30 June 2013. Since this date, the acquisition accounting has been finalised and an adjustment made to increase provisions and goodwill by \$165 thousand. The above disclosures reflect the adjusted and final values.

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 were not recognised separately as they do not meet the recognition criteria for intangible assets.

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

39 BUSINESS COMBINATION (continued)

(a) Summary of acquisition (continued)

(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.

(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.

	\$'000
(b) Purchase consideration - cash outflow	
Consideration paid in cash	4,197
Less: cash and cash equivalent balances acquired	-
Outflow of cash - investing activities	<u>4,197</u>

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.

40 EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 11 August 2014, the Company announced that it would conduct an on-market buy-back in order to offset the dilutionary impact of shares to be issued in August and September 2014 pursuant to the exercise of employee share options. The maximum number of shares that will be purchased is 645,765 and the buy-back is scheduled to commence in September 2014.

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

41 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	
	2014 \$'000	2013 \$'000
Cash and cash equivalents	43,445	67,368
Bank overdrafts	-	-
Balances per statement of cash flows	<u>43,445</u>	<u>67,368</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2014

41 NOTES TO THE CASH FLOW STATEMENT (continued)

	Consolidated	
	<i>2014</i> \$'000	<i>2013</i> \$'000
(b) Reconciliation of net cash inflow from operating activities to profit		
Profit for the year	128,447	116,632
Depreciation and amortisation	35,530	33,232
Non-cash employee benefits expense - share-based payments	3,592	2,680
Net loss on sale of non-current assets	382	1,287
Impairment of plant and equipment	-	1,574
Fair value adjustment to derivatives	937	1,210
Change in operating assets and liabilities net of effects from acquisition of businesses:		
(Increase) decrease in inventories	(29,580)	4,518
(Increase) decrease in current receivables	(6,169)	(1,123)
(Increase) decrease in other current assets	723	1,648
(Increase) decrease in deferred tax balances	637	1,650
(Decrease) increase in current payables	(88,212)	(19,477)
(Decrease) increase in current provisions	155	5,294
(Decrease) increase in other current liabilities	175	368
(Decrease) increase in non-current provisions	(716)	(4,377)
(Decrease) increase in other non-current liabilities	2,162	736
(Decrease) increase in current tax liabilities	(6,737)	10,558
Net cash inflow from operating activities	41,326	156,410

42 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	
	<i>2014</i> \$'000	<i>2013</i> \$'000
Financial assets		
Cash and cash equivalents	43,445	67,368
Trade and other receivables	70,745	64,246
	114,190	131,614
Financial liabilities		
Trade and other payables	273,723	361,181
Bank loans	179,653	124,331
Interest rate swaps (net settled)	104	956
	453,480	486,468

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

Interest rate swap contracts

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

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

	30 June 2014		30 June 2013	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Consolidated				
Bank loans	5.27%	180,000	5.68%	125,000
Interest rate swaps (notional principal amount)	6.80%	(30,000)	6.94%	(37,800)
Net exposure to cash flow interest rate risk		150,000		87,200

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2014

42 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk (continued)

(iii) Summarised sensitivity analysis (continued)

	Interest rate risk				
	Carrying amount \$'000	-50 bps		+50 bps	
		Profit \$'000	Other equity \$'000	Profit \$'000	Other equity \$'000
Consolidated					
30 June 2014					
Financial liabilities					
Interest rate swaps	104	(255)	(145)	255	145
Borrowings	179,653	326	-	(326)	-
Total increase/(decrease)		71	(145)	(71)	145

	Interest rate risk				
	Carrying amount \$'000	-50 bps		+50 bps	
		Profit \$'000	Other equity \$'000	Profit \$'000	Other equity \$'000
Consolidated					
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

(b) Liquidity risk

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

Financing arrangements

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

	Consolidated	
	2014 \$'000	2013 \$'000
Unsecured bank overdraft facility:		
amount used	-	-
amount unused	89,293	88,424
	89,293	88,424
Unsecured indemnity guarantees:		
amount used	601	1,549
amount unused	1,099	151
	1,700	1,700
Unsecured bank loan facilities (term debt):		
amount used ⁽ⁱ⁾	180,000	125,000
amount unused	20,000	75,000
	200,000	200,000
Headroom in total borrowing facilities (excluding security indemnity guarantees)	109,293	163,424

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

42 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

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.

	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Weighted average effective interest rate
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
2014							
Financial Assets							
Cash and cash equivalents	43,445	-	-	-	-	43,445	2.13%
Trade and other receivables	70,745	-	-	-	-	70,745	-
	114,190	-	-	-	-	114,190	
Financial liabilities							
Trade and other payables	273,723	-	-	-	-	273,723	-
Bank loans	4,740	4,740	189,480	-	-	198,960	5.27%
Interest rate swaps (net settled)	46	35	26	-	-	106	-
	278,509	4,775	189,506	-	-	472,789	

	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Weighted average effective interest rate
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
2013							
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	361,181	-	-	-	-	361,182	-
Bank loans	3,551	3,551	7,102	132,102	-	146,306	5.68%
Interest rate swaps (net settled)	515	454	-	-	-	969	-
	365,247	4,005	7,102	132,102	-	508,457	

(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.

42 FINANCIAL RISK MANAGEMENT (continued)

(d) Fair value of financial instruments

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

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

43 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

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ADDITIONAL SECURITIES EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 4 August 2014.

A. Distribution of equity securities

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

Holding	Ordinary shares		
	Total Holders	Units	% Issued Capital
1 - 1,000	14,677	5,847,997	5.91
1,001 - 5,000	4,760	9,969,822	10.08
5,001 - 10,000	426	3,047,633	3.08
10,001 - 100,000	210	5,257,091	5.31
100,001 and over	32	74,824,766	75.62
	20,105	98,947,309	100.00

There were 314 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

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

Name	Ordinary shares	
	Number held	% of issued shares
1. NATIONAL NOMINEES LIMITED	20,848,258	21.07
2. J P MORGAN NOMINEES AUSTRALIA LIMITED	17,131,537	17.31
3. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	13,414,483	13.56
4. CITICORP NOMINEES PTY LIMITED	5,546,312	5.61
5. BNP PARIBAS NOMS PTY LTD <DRP>	4,637,266	4.69
6. CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	4,131,112	4.18
7. BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	1,628,290	1.65
8. UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD ⁽ⁱ⁾	1,391,140	1.41
9. AMP LIFE LIMITED	1,102,664	1.11
10. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	811,708	0.82
11. SHAWVILLE PTY LTD	500,000	0.51
12. UBS NOMINEES PTY LTD	446,500	0.45
13. BOND STREET CUSTODIANS LIMITED <COCKEJ - F01832 A/C>	335,917	0.34
14. AVANTEOS INVESTMENTS LIMITED <2477966 DNR A/C>	225,846	0.23
15. NATIONAL NOMINEES LIMITED <DB A/C>	224,136	0.23
16. 3RD WAVE INVESTORS LTD	200,000	0.20
17. NATIONAL NOMINEES LIMITED <N A/C>	197,000	0.20
18. R F THOMPSON (QLD) PTY LTD <THOMPSON (QLD) FAM NO2 A/C>	190,890	0.19
19. MUTUAL TRUST PTY LTD	166,500	0.17
20. RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PI POOLED A/C>	161,373	0.16
	73,290,932	74.09

(i) Includes 959,240 shares held on behalf of Terry Smart and entities associated with Terry Smart.

C. Substantial holders

Substantial holders in the Company are set out below:

Ordinary shares

	<i>Number held</i>	<i>Voting Power %</i>
Challenger Limited	6,157,997	6.22
Integrity Investment Management	5,773,682	5.84
Commonwealth Bank of Australia	5,604,732	5.66
Ausbil Dexia Limited	5,496,406	5.55
UBS AG and its related bodies corporate	5,301,256	5.36
Vinva Investment Management	5,042,678	5.10

D. Unquoted equity securities

Employee share options issued under the Company's share option plans

	<i>Number on issue</i>	<i>Number of holders</i>
Employee share options issued under the Company's share option plans	2,840,122	85

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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
Craigieburn
Cranbourne
Dandenong
Doncaster
Epping Plaza
Essendon
Forest Hill
Fountain Gate
Frankston
Frankston - Bayside
Geelong
Glen Waverley (The Glen)
Greensborough
Highpoint
Holmesglen
Hoppers Crossing
Knox
Maribyrnong
Melb City (Bourke St)
Melb City (Elizabeth St,
Lonsdale St, Elizabeth St Telco)
Melton
Mildura
Narre Warren
Nunawading
Plenty Valley
Prahran
Preston
Preston - Northland
Ringwood
Shepparton
South Wharf
Southland
Springvale
Sunshine
Thomastown
Traralgon
Watergardens
Waurin Ponds
Werribee

NSW

Albury
Artarmon
Bankstown
Belrose
Blacktown
Bondi
Broadway
Caringbah
Castle Hill
Castle Towers
Charlestown
Chatswood
Chatswood Chase
Coffs Harbour
Eastgardens
Erina
Glendale
Homebush
Hornsby
Jamisontown
Kotara
Leichhardt
Liverpool
Macarthur Square
Macquarie
Merrylands
Miranda
Moore Park
Mt Druitt
Newcastle
North Sydney
Parramatta
Parramatta Centre
Penrith
Port Macquarie
Roselands
Rouse Hill
Shellharbour
Sydney 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
Indooroopilly (Shopping Centre)
Ipswich
Kawana
Kedron
Loganholme
Mackay
Maroochydore
Mermaid Waters
Morayfield
Mt Gravatt
Mt Ommaney
Oxley
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
Ocean Keys
Osborne Park
Perth City (enex 100)
Perth City (Hay Street
Mall)
Perth City (Piccadilly
Arcade)
Rockingham
Whitford

TAS

Hobart
Rosny Park

NT

Berrimah
Casuarina

ACT

Belconnen
Canberra City
Fyshwick
Tuggeranong
Woden

New Zealand

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

(i) Current as at 30 June 2014

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