

## Chairman's Address 2010 Annual General Meeting

I am pleased to report that the year ended 30 June 2010 was another record year for the company with the strong performance of existing stores and the roll out of 23 new stores. We continued our expansion in the New Zealand market, opening an additional JB Hi-Fi store.

In 2010 we saw:

- an increase in revenue of 17% to \$2.73 billion;
- an increase in net profit after tax of 26% to \$118.7 million; and
- an increase in earnings per share of 24% to 109.7 cents.

Total dividends relating to the 2010 financial year increased by 50%, from 44.0 cents per share in the prior year to 66.0 cents per share. This represented a payout ratio of 60% in line with the board's targeted payout ratio.

Shareholders who invested in the IPO in October 2003 have achieved an annual compound return of 43.2% compared to 5.0% for the ASX 200 Accumulation Index over the same period<sup>i</sup>.

Low operating costs is a cornerstone philosophy for the company. Low prices drive sales and increase our economies of scale which in turn allows the company to share this increase in value between the customer via lower prices and the shareholder through increasing profit margins and dividends.

For the year ended 30 June 2010 our cost of doing business was 14.5%, a continued improvement from 14.7% in the previous year. Whilst we have reduced our CODB by 264bps over the last 5 years, we continue to challenge ourselves to produce year on year improvement in this key performance measure. The lower our costs when compared to our competitors the better we can deliver on our everyday low pricing strategy whilst maintaining an acceptable (and improving) return to shareholders.

Our cost advantage is continually enhanced by:

- increasing sales from established stores and the new store roll out, which improves our economies of scale in buying (product, advertising and services) and support office costs; and
- an appropriate application of technology and training to improve labour productivity whilst maintaining customer service levels.

Discounters generally appear to have fared better than their full price rivals in navigating the financial crisis as customers became increasingly more price conscious. Notwithstanding that the crisis for Australia has largely passed we would expect that the appeal of the discounter will be maintained. The consumer has been educated to look for a deal in most of their non food purchases.

Most retailers including JB underestimated the impact of the government stimulus on their trading through FY09. The \$21 billion<sup>ii</sup> in cash payments added significantly to liquidity, bolstering retail spending. JB still recorded a creditable 4.8% comparable store growth for FY10. To get a perspective that is less affected by the stimulus it is worth noting that our compound annual comparable growth was 7.9% over the two years ending 30 June 2010.

The recent strengthening of the Australian dollar, particularly against the US dollar has also attracted a lot of comment. It is important to remind shareholders that the company buys from local subsidiaries of the off shore manufacturers, music and movie companies in Australian dollars. It is the manufacturer that takes the principal currency risk. As all our major competitors buy locally for most items, fluctuations in currency do not impact our relative competitiveness. The challenge arises where a high local currency drives price deflation such that more units must be purchased, merchandised and sold to achieve the same gross profit dollars.

<sup>i</sup> as at 30 September 2010

<sup>ii</sup> per RBA Bulletin, August 2009

The rollout of JB Hi-Fi branded stores has continued across Australia and New Zealand. The Company has a target of 210 JB Hi-Fi branded stores, consisting of 160 Tier 1 large format stores and 50 smaller format Tier 2 stores. Whilst early in their development, Tier 2 stores are performing well adding further confidence to the scope of our property plan. Building on our current base of 130 JB Hi-Fi stores at the end of FY10, we look forward to many years of growth as we continue our roll out.

Today we employ over 5,500 staff in Australia and New Zealand. In FY10 we saw a net increase in our total employees of 731 or 15%. With each new store opening we create approximately 30 new employment opportunities. We would anticipate creating over 500 new employment opportunities in the Company in the 2011 financial year. We continue to attract high calibre, passionate retail professionals to manage our expansion and build on the JB brand of product, price and service experience.

As reported previously, the Company has moved from being a net investor of cash to a net generator of cash. At year end we had a conservative net debt position of \$17.9 million. The company has been assessing its capital structure to ascertain the right balance between financial risk and efficient capital usage. Given the current headwinds of increasing interest rates and softer than expected consumer spending we believe that further consideration of any material capital management initiatives is best deferred until after the important 2010 Christmas trading period.

After 10 years at the helm of the Company, Richard Uechtritz retired as CEO in May 2010 and was succeeded by Terry Smart. Richard led the management buy in with Terry in July 2000. At that time, the Company was operating 10 stores (nine in Victoria and one in NSW) and had revenue of \$135 million. Under Richard's leadership the Company successfully expanded to become a major Australian retailer and an ASX 100 Company. Along the way, Richard and the Company have received numerous awards in recognition of their success in making JB Hi-Fi a prominent retail brand and a favourite with customers and investors. On behalf of the Board, and I am sure all shareholders, I wanted to publicly pay tribute to the enormous contribution Richard has made as an executive. We look forward to Richard joining the Board as a non executive director early next year.

Since the management buy-in in 2000, Terry has been an Executive Director and Chief Operating Officer. In that time Terry had either direct control or high levels of exposure to each and every aspect of the business. As a Board, we were delighted that Terry accepted the offer to take on the CEO role. Terry has made a very good start and we are very confident that he will discharge this office with the same energy and success as he did with his previous role.

The JB workplace giving program "Helping Hands", launched in 2008, now has more than 890 employees making regular weekly contributions. We have 8 charity partners including the Fred Hollows Foundation, Oxfam and Redkite which were added during the year. To date the program has raised \$1.33 million including the matching grants made by the Company. Through the program, the Company is able to engage more closely with both its employees and the communities it services.

During 2010 we launched our 'Change for Change' initiative, installing donation boxes in all stores nationally to encourage customers and staff to donate some of their spare change to help change the lives of those less fortunate. All donations are divided evenly between our 8 charity partners.

JB Hi-Fi has become a founding partner of The Australian Charities Fund's "Employer Leadership Initiative". Members of the Employer Leadership Initiative have demonstrated best practice in engaging with their employees around community issues and are committed to leading the growth of the sector with ACF. JB Hi-Fi will join ten other leading Australian employers to help lead the way in growing social impact and community engagement through engaged employee giving. This initiative will be launched in October 2010.

In conclusion let me take the opportunity to thank my fellow directors, Terry and all the staff of JB who have delivered another record result for shareholders.

I will now invite CEO Terry Smart to address the meeting on the operational results.