



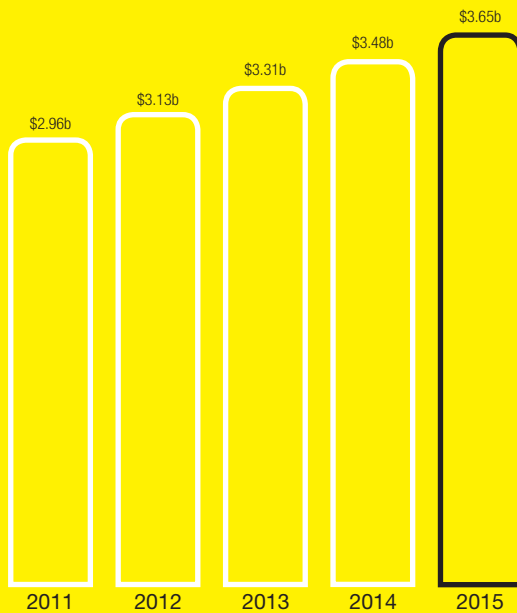
ANNUAL REPORT  
2015

# Financial Summary

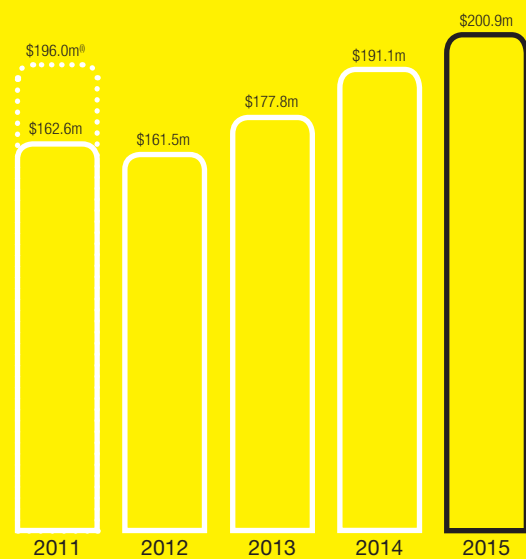
## FINANCIAL PERFORMANCE

	2011 Normalised <sup>(i)</sup>	2011 Statutory	2012 Statutory	2013 Statutory	2014 Statutory	2015 Statutory	Growth
Sales	\$2.96b	\$2.96b	\$3.13b	\$3.31b	\$3.48b	\$3.65b	4.8%
EBIT	\$196.0m	\$162.6m	\$161.5m	\$177.8m	\$191.1m	\$200.9m	5.1%
NPAT <sup>(ii)</sup>	\$134.4m	\$109.7m	\$104.6m	\$116.4m	\$128.4m	\$136.5m	6.4%
Earnings per share	124.7cps	101.8cps	105.9cps	117.7cps	128.4cps	137.9cps	7.4%
Total dividend - fully franked	77.0cps	77.0cps	65.0cps	72.0cps	84.0cps	90.0cps	7.1%

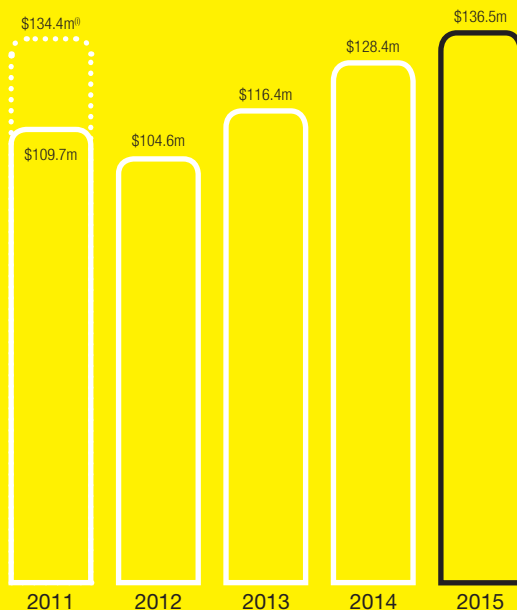
## Sales \$3.65b



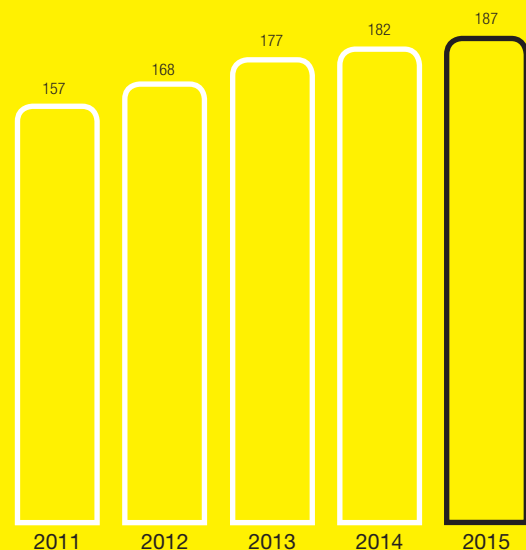
## EBIT \$200.9m



## NPAT<sup>(ii)</sup> \$136.5m



## 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,

It's pleasing to record that the year ended 30 June 2015 was a record 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, our continued emphasis on customer service and ongoing cost control.

## Overview

JB Hi-Fi Limited achieved sales of \$3.65 billion in FY15, with total sales growth of 4.8% and comparable sales growth of 2.9%. Of particular note was how our sales and earnings momentum grew through the financial year. Trading in June was particularly strong, as we cycled a soft trading period in the prior year and enjoyed the benefits of solid sales growth assisted by the small business tax incentives.

Net profit after tax was up 6.4% to \$136.5m, earnings per share was up 7.4% to 137.9 cents per share and the total dividend for FY15 was up 7.1% on the prior year to 90.0 cents per share.

Gross margin improved 16 basis points to 21.9% (FY14: 21.7%) driven by a combination of sales mix and improved buying terms.

Total operating costs were in line with our expectations as we maintained our low CODB through continued focus on productivity and minimising indirect expenditure. Our low cost of doing business, at 15.3%, continues to be a competitive advantage and remains lower than our major listed competitors. Store wages remained well controlled during FY15 as we invested in our HOME store rollout and continued to deliver the high standard of customer service that JB Hi-Fi is known for.

The balance sheet continues to grow in strength with relatively low financial and operating leverage, evidenced by our solid fixed charges cover of 3.4 times, gearing of 0.6 and interest cover of 33.9 times. In June 2015, the Group renewed its term debt facility of \$200.0 million until June 2018.

JB Hi-Fi is a discount retailer with the ability to consistently offer everyday low prices through the scale of our operations, high stock turnover and low cost of doing business. We offer one of the largest ranges of home entertainment, consumer electronic and home appliances at discounted prices, positioned to appeal to all customers.

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 the reputation for taking the deal, price leadership, distinctive brand personality and a low cost operating model which underpins our competitive pricing.

JB Hi-Fi is constantly innovating to ensure that it remains current and relevant to its customers. We have a culture of embracing change, which is seen as a "natural" part of the business. Our stores have relatively high sales per square metre, when compared to many local competitors and comparable international businesses. They are located in high foot traffic precincts which allow both convenient access for customers and maximise impulse traffic.

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.

## In Store

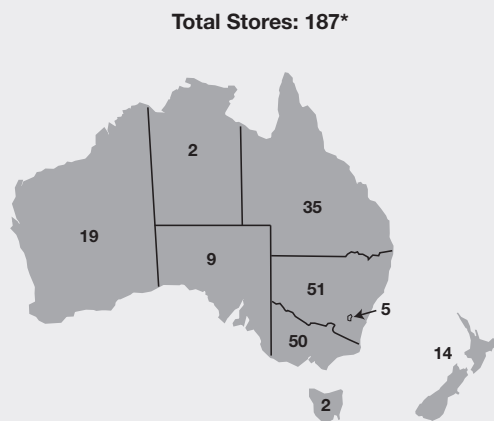
We had 187 stores in Australia and New Zealand at 30 June 2015, with five new stores opened during the year. During FY16 we expect to open six new stores and we maintain our stated target of 214 stores across Australia and New Zealand.

As at 30 June 2015 we had 43 JB Hi-Fi HOME stores, with four new JB Hi-Fi HOME stores opened and 17 JB Hi-Fi stores converted to JB Hi-Fi HOME during FY15. The Company is currently targeting a total of 75 JB Hi-Fi HOME stores across Australia and New Zealand. Each new JB Hi-Fi HOME store contributes to growing our customer awareness, market share and supplier support. This, combined with our ongoing investment in store wages, staff training and supply chain, places us in a good position as we continue with our expansion.

In addition to our HOME store roll-out, we are currently introducing small appliances into existing JB Hi-Fi stores. We see the rollout of small appliances to our existing store network as a natural progression of our proven home appliances strategy. These stores will have their layout reconfigured and will remain branded as JB Hi-Fi. We believe that small appliances are particularly suited to our shopping centre locations and they have been added to four JB Hi-Fi stores to date, with pleasing results. 14 additional JB Hi-Fi stores will range small appliances by November 2015.

The home appliances market in Australia is circa \$4.6 billion, larger than many of the other categories JB Hi-Fi operates in, and presents a significant opportunity for us as we leverage the strength and trust in the JB Hi-Fi brand. By leveraging our strong heritage in innovation and technology, we see our continued expansion into home appliances and ultimately the connected home as a significant opportunity for JB Hi-Fi in the future.

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.



\* As at 30 June 2015

**Out of Store**

Online sales continue to grow, up 16.9% in FY15, and represent approximately 2.4% of total sales (FY14: 2.2%). Unique visitors to JB Hi-Fi's websites during FY15 averaged 1.2 million per week.

We recently rebranded our commercial and education solutions offer as JB Hi-Fi Solutions, in line with our plan to provide an integrated offer of both products and services to business, government and education clients across Australia. JB Hi-Fi Solutions is a key driver of our future growth and we enter FY16 with an aggressive recruitment plan as we expand our product and service offer. JB Hi-Fi Solutions remains on track to deliver on its longer term aspirational sales target of approximately \$500 million per annum, through both organic growth and strategic acquisitions.

We continue to develop our low cost, fit-for-purpose supply chain and logistics solution, with facilities now operating in Melbourne, Sydney, Brisbane, Perth and Auckland. In other states and regional centres where stand-alone facilities are not currently economic, the HOME rollout allows for expanded back-of-house storage areas.

**Executive Appointments**

In August 2015 we announced the appointments of Kevin Ramsdale as Marketing Director and Simon Page as Chief Information Officer. Both Kevin and Simon are proven executives and highly regarded in their respective fields. Kevin has a strong track record of driving commercial performance in customer focused businesses and Simon has consistently delivered high quality technology solutions. Kevin and Simon will commence with JB Hi-Fi during September 2015 and we are delighted to have them join the JB Hi-Fi team.

**Board Changes**

In August 2015 we announced the intention of James King to retire as a non-executive director following JB Hi-Fi's AGM on 29 October 2015 and the appointment of Wai Tang as a non-executive Director with effect from 14 September 2015.

James joined the Board in May 2004 and was Chairman of the Company between May 2006 and September 2007. James has made a significant contribution to JB Hi-Fi and his experience, expertise and advice have been of great value to the business as it has gone from strength to strength over the past 11 years. The Board thanks James for his valuable service and contribution to JB Hi-Fi.

Wai has extensive experience in managing retail businesses and in supply chain and operations management. She has performed senior executive roles as Operations Director for Just Group and as CEO of the Peter Alexander sleepwear business. Prior to joining Just Group she was General Manager of Business Development for Pacific Brands. Wai was the founder of the Happy Lab gourmet confectionary business and is currently also a non-executive director of Federation Centres, Kikki K and the Melbourne Festival. Her past board positions include non-executive directorships with Specialty Fashion Group and the Melbourne Fashion Festival.

The Board is delighted to welcome Wai to the Board. Wai brings a wealth of retail industry experience at both a senior executive and board level, and we look forward to working with her.

**Board and Management Approach**

The Board recognises the importance of governance, environmental and social matters to our shareholders, suppliers and customers and continually reviews and monitors developments in corporate governance which are relevant to JB Hi-Fi. The Board is committed to ensuring that JB Hi-Fi's 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.

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. In FY15 almost \$1.7 million was raised and, since its inception, JB Hi-Fi and its employees are proud to have raised more than \$7.4 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. In FY15 over \$50,000 has been collected in Australia and, since inception, the program has raised over \$430,000. In New Zealand approximately \$20,000 has been collected since boxes were first introduced into stores.

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

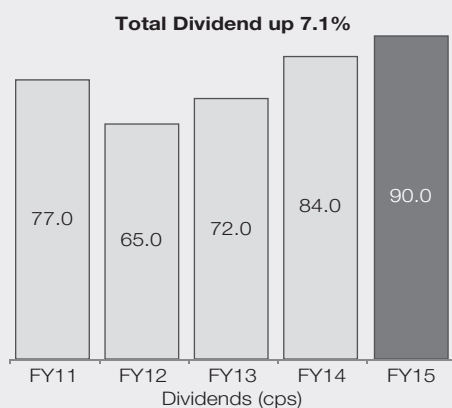
### Capital Management

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 September 2014 we completed an on-market share buy-back of 0.3 million ordinary shares at a cost of \$5.0 million in order to offset the dilutionary impact of shares issued to employees under JB Hi-Fi's share option plans.

On 10 August 2015 we announced that we would continue with our on-market buy-back program with a buy-back of a maximum of 0.8 million ordinary shares to commence in September 2015.

The Board has declared a final dividend of 31.0 cents per share fully franked (FY14: 29.0 cents per share), bringing the total dividend for FY15 to 90 cents per share, up 7.1% on the prior year. The Board believes that our dividend payout ratio of 65% appropriately balances the distribution of profit to shareholders and the reinvestment of earnings for future growth.



### Outlook

With an aggressive store investment program and an expanded JB Hi-Fi Solutions offer, we are well positioned to drive sales and earnings growth in FY16.

Our store investment program in FY16 includes the ongoing rollout of JB Hi-Fi HOME, the continued rollout of small appliances to a number of existing stores, and upgrades to a number of our existing stores. We expect JB Hi-Fi Solutions to also be a key driver of our future growth and we enter FY16 with an aggressive recruitment plan as we expand our product and service offer.

In FY16 we expect:

- to open six new stores;
- to convert 16 existing stores to JB Hi-Fi HOME; and
- total sales to be circa \$3.85 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 exciting and successful year in FY16.

**Greg Richards**  
Chairman

**Richard Murray**  
Chief Executive Officer

Melbourne,  
21 August 2015

# Annual Report

for the financial year ended **30 June 2015**

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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).

#### CORPORATE 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 3rd edition of the ASX Corporate Governance Council Principles and Recommendations (the “ASX Recommendations”). The Board believes that, during the 2015 financial year, it has been compliant with the spirit of the principles contained in the ASX Recommendations.

This Corporate Governance Statement has been approved by the Board and is effective as at 10 August 2015.

#### 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 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](http://www.jbhifi.com.au) via the “Investors” 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.

The Board believes that having a range of different skills, backgrounds, experience and gender ensures a diversity of viewpoints which facilitate effective governance and decision making.

The Company believes that skills and experience in the areas listed below are desirable for its Board to perform its role effectively. The Board considers that its current composition possesses an effective blend of these skills and experience which enables it and its Committees to effectively govern the business, operate effectively and add value in the context of the Company’s strategy.

- Executive/Management experience
- Retail knowledge and expertise
- Operational Management expertise and experience
- Financial expertise and qualifications
- Property expertise
- Mergers & Acquisitions expertise and experience
- Governance expertise and experience
- Other board experience
- Experience in setting executive remuneration
- Risk Management expertise and experience

JB Hi-Fi maintains a majority of non-executive directors on its Board. The Board currently comprises six directors, being five non-executive directors, including the Chairman, and one executive director, being the Chief Executive Officer. The Company has written agreements with each director setting out the terms of his/her appointment. Apart from the Chief Executive Officer, directors are subject to shareholder re-election by rotation at least every three years. The Company provides shareholders with all material information in its possession relevant to the election or re-election of a director.

A copy of the Company's Board Composition & Succession Policy, which includes the procedure for the selection and appointment of directors, can be found on the Company's website at [www.jbhifi.com.au](http://www.jbhifi.com.au) via the "Investors" and "Governance" sections. The Board will undertake appropriate checks before appointing any person or putting forward to shareholders a candidate for election as a director.

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

### **Independence**

JB Hi-Fi considers that each of its directors (including the Chairman) is independent with the exception of Richard Murray, the Chief Executive Officer.

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

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 interfere with, or compromise, their respective abilities to exercise independent, unfettered judgement or act in the best interests of the Company.

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

Beth Laughton is a non-executive director and member of the audit, compliance & risk management committee of GPT Funds Management Limited, the responsible entity for the GPT Wholesale Office Fund and GPT Wholesale Shopping Centre Fund. The GPT Wholesale Shopping Centre Fund has ownership interests in 11 shopping centres in which the Company currently leases stores. The Board is of the opinion that Beth is an independent director on the basis that individual leasing arrangements at both the Company and GPT are generally determined at a managerial level rather than Board level. In addition, the Company's internal protocols provide that Beth would be excluded from any discussion and decision making where any conflict of interest arises between Beth's role as a director of the Company and her role as a director of GPT Funds Management Limited.

### **Conflict of Interest**

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

### **Board meetings**

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



### **Access to information and independent advice**

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

### **Professional Development of Directors**

The Company recognises the need for its directors to develop and maintain the skills and knowledge needed to perform their roles as directors effectively. The Company provides the directors with briefings and advice on developments in both the law and current practice in areas relevant to the Company and their role as directors (including, for example, corporate governance, accounting and remuneration). The Company does this using both the Company's external advisors (including the Company's auditors and legal and remuneration advisors) and management (including the Chief Financial Officer and the Company Secretary & General Counsel). Individual directors also take advantage of professional development opportunities provided by third parties such as the Australian Institute of Company Directors and major accounting and legal firms.

The Company has an induction program for new directors.

### **BOARD COMMITTEES**

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

#### **Audit and Risk Management Committee**

The Board has established an Audit and Risk Management Committee.

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

- oversight of the reliability and integrity of the 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 an adequate and 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](http://www.jbhifi.com.au) via the "Investors" and "Governance" sections.

During the 2015 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 Chair of Committee;
- James King: Ongoing member of Committee; and
- Gary Levin: Ongoing member of Committee.

Details of the background and experience of each of these non-executive directors are outlined in the Directors' Report.

The Audit and Risk Management Committee meets regularly. Details of the meetings held and members' attendance during the 2015 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 of 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](http://www.jbhifi.com.au) via the "Investors" and "Governance" sections.

During the 2015 financial year, the Remuneration Committee comprised the following directors, each of whom are considered by the Company to be independent:

- Greg Richards: Ongoing member and Chair of Committee;
- 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 2015 financial year are listed in the Directors' Report. Directors who are not members of the Remuneration Committee may attend a Remuneration Committee meeting at the invitation of the Chairman when considered appropriate.

### **Nominations Committee**

The Board has decided not to establish a Nominations Committee. Rather the Board itself is responsible for:

- Board succession planning and ensuring that the Board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively (including the process for recruiting new directors);
- induction programs for new directors;
- establishing formal and transparent procedures for the selection and appointment of new directors to the Board;
- selecting, appointing and regularly evaluating the performance of, and planning for the succession of, the Chief Executive Officer; and
- developing 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](http://www.jbhifi.com.au) via the "Investors" and "Governance" sections.

### **COMPANY SECRETARY**

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

### **CODE OF CONDUCT**

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](http://www.jbhifi.com.au) via the "Investors" and "Governance" sections.

## DIVERSITY

JB Hi-Fi recognises the importance of diversity and values the competitive advantage that is gained from a diverse range of skills, backgrounds, experience and gender at all levels of the organisation. The Company has a Diversity Policy which is available on the Company's website at [www.jbhifi.com.au](http://www.jbhifi.com.au) via the "Investors" 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 2015 the proportion of women engaged by JB Hi-Fi was as follows:

- Board: 17% being 1 of 6 directors (2014: 14%)
- Senior Management/Executive (excluding the executive director/CEO): 8% being 2 of 24 employees (2014: 4%). For these purposes, Senior Management/Executive means:
  - the 4 executives listed on page 30 of this Report who were employed on 30 June 2015, excluding the executive director; and
  - the 19 next most senior managers of the Company, each of whom reports to one of these executives or the executive director.
- Group: 39% being 2,883 of 7,320 employees (2014: 39%).

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

Objective set in March 2012	June 2015	June 2014	June 2013	June 2012
To improve the percentage of female to male commissioned store sales staff over each of the next 3 years	22%	21%	21%	21%
To improve the percentage of female to male store managers over the next 3 years	10%	10%	11%	11%
To improve the percentage of female to male regional/area managers over the next 3 years	9%	0%	0%	0%
To increase the percentage of female senior managers over the next 3 years	8%	4%	5%	9.5%

At the time of setting the objectives the Board noted 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/area management and senior management roles, with the vast majority of these positions being occupied by long serving employees of the Group. The existence of stable senior and regional/area management teams, in the context of a historically male-dominated consumer electronics industry, has posed challenges for achieving change in the short-term.

Noting the challenges set out above, since setting these objectives the Company has taken the following actions:

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

The Company is currently undertaking a review of its gender diversity objectives and the plans for achieving them and has recently engaged a diversity consultant to assist with this process. The Company will report further on progress in this area in the 2016 Annual Report.

#### **SHAREHOLDINGS OF DIRECTORS AND EMPLOYEES**

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

Subject to certain specific and limited exceptions, directors and key employees may only trade in 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 in advance of any such trading and any transaction conducted by directors in shares of the Company is notified to the ASX.

A copy of the Securities Trading Policy can be found on the Company's website at [www.jbhifi.com.au](http://www.jbhifi.com.au) via the "Investors" and "Governance" sections.

#### **INTEGRITY OF REPORTING**

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

In accordance with the Corporations Act and the ASX Recommendations, the 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 2015) for the financial year have been properly maintained in accordance with section 286 of the Corporations Act;
- (b) the financial statements for the financial year and the notes required by the accounting standards give a true and fair view of the consolidated entity's financial position and performance, and comply with the accounting standards;
- (c) the statements in (a) and (b) above are founded on a sound system of risk management and internal control which is operating effectively; and
- (d) subsequent to 30 June 2015, no changes or other matters have arisen that would have a material effect on the operation of the risk management and internal control systems of the Group.

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

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

#### **CONTINUOUS DISCLOSURE**

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

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

## SHAREHOLDER COMMUNICATIONS

The Company's website [www.jbhifi.com.au](http://www.jbhifi.com.au) contains an overview of the Company's business and its history ("Consumer Matters" section), and an "Investors" section which includes the following information for shareholders:

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

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

A copy of the Company's Shareholder Communication Policy can be found on the Company's website at [www.jbhifi.com.au](http://www.jbhifi.com.au) via the "Investors" and "Governance" sections.

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

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

## RISK IDENTIFICATION AND MANAGEMENT

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.

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 adequately manages risk to protect its people, the environment and the Company's assets and reputation. Risk identification and management is also a key focus of the executive and management teams.

The Company does not have an internal audit function but has a dedicated risk management team led by the Group Risk & Assurance Manager. The Group Risk & Assurance Manager is a member of the Company's senior management team and has direct access to the Chair of the Audit and Risk Management Committee, and attends all meetings of the Committee at which risk management is considered. The Company's risk management team has designed an effective risk management framework in line with ISO 31000 which enables management to identify and manage risk appropriately. This risk framework is reviewed and revised with input from senior management and the Audit and Risk Management Committee and is approved by the Board on an annual basis. The risk management framework was last reviewed and revised by the Committee and approved by the Board in January 2015.

A copy of the Company's Risk Management Policy can be found on the Company's website at [www.jbhifi.com.au](http://www.jbhifi.com.au) via the "Investors" and "Governance" sections.

## **ECONOMIC, ENVIRONMENTAL & SOCIAL SUSTAINABILITY RISKS**

### **Economic sustainability risks**

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

The Group is exposed to a number of economic sustainability risks, which have a real possibility of substantively impacting on the Group's ability to create or preserve value for its shareholders over the short, medium or long term. These economic sustainability risks (together with JB Hi-Fi's strategies for managing these risks) are discussed in the "Business Strategies and Prospects" section of the Operating and Financial Review commencing on page 24.

### **Environmental sustainability risks**

Environmental sustainability risks are risks to the Group's ability to continue operating in a manner that does not compromise the health of the ecosystems in which it operates over the long term.

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

Notwithstanding this, environmental sustainability is important to the Group and, accordingly, the Group has implemented several initiatives to minimise the impact of its operations on the environment. These initiatives are discussed in the Environmental Statement on page 13 and include participation in the Carbon Disclosure Project, the Australian Packaging Covenant and various recycling initiatives related to the products the Company sells.

### **Social sustainability risks**

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

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

Notwithstanding this, the Group prides itself on conducting its business in a socially responsible manner and believes that it is important to give back to the community. The Group's initiatives in this regard are discussed in the Social Statement on page 14, the most significant of which is its Helping Hands workplace giving program.

## **BOARD AND EXECUTIVE PERFORMANCE**

JB Hi-Fi monitors and evaluates the performance of its Board, Board Committees, individual directors, and executives in order to fairly review, and actively encourage enhanced, Board and management effectiveness. 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](http://www.jbhifi.com.au) via the "Investors" and "Governance" sections. Evaluation of the Board, Board Committees, individual directors and executives has been conducted in respect of the 2015 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 financial 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](http://www.jbhifi.com.au) via the "Investors" 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.

JB Hi-Fi has provided its 2015 response to the CDP, but has not yet received a 2015 CDP score. In 2014, JB Hi-Fi received a CDP score of 73E (2013: 63E), which represents the Company's best CDP score since it began reporting in 2009.

### **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. Each signatory to the Australian Packaging Covenant is required to have an action plan which sets out what the signatory proposes to do to contribute to the Australian Packaging Covenant's objectives and goals. JB Hi-Fi reports annually to the Australian Packaging Covenant Council and signatories to the Australian Packaging Covenant are given a rating (out of 5) on their performance against their action plan annually. JB Hi-Fi's rating for FY2015 is not yet available (FY2014: 3.0, FY2013: 2.8).

### **Mobile Phone Recycling and Re-use**

Mobile Muster is an initiative of the Australian Mobile Telecommunications Association introduced to facilitate mobile phone recycling. Since 2010, JB Hi-Fi has implemented this voluntary initiative to facilitate the return of used mobile phones by customers. JB Hi-Fi also runs a mobile phone trade-in program which has the benefit of reducing 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. In FY2015, approximately 33,000 cartridges were recycled through this program. Since the commencement of the program almost 100,000 cartridges have been recycled.

### **Store Recycling Initiatives**

All stores have paper and cardboard recycling bins and certain stores also recycle old appliances.

### **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 employees, customers and suppliers to ensure that it gives back to the community.

**JB Hi-Fi's Workplace Giving Program – "Helping Hands"**

Workplace giving programs have proved to be a very effective way for employers and employees to join together to support the community.

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. JB Hi-Fi works with The Australian Charities Fund ("ACF") in Australia 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 4,100 employees (approximately 60% of total JB Hi-Fi Australia employees) each making weekly contributions. This year almost \$1,650,000 has been raised and, since its inception, the Company and its employees are proud to have raised more than \$7,250,000.

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

**Helping Hands – New Zealand**

The Helping Hands program was launched in New Zealand in May 2012 and involves over 160 employees (approximately 32% of JB Hi-Fi New Zealand employees) making weekly contributions. This year approximately \$55,000 was raised and since its inception almost \$150,000 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 \$50,000 has been collected in Australia and, since inception, the program has raised over \$430,000. In New Zealand approximately \$20,000 has been collected since boxes were first introduced into stores.

**"Employer Leadership Group" – Founding Partner**

In addition to its contribution through Helping Hands, the Company is a founding partner of the Australian Charities Fund's "Employer Leadership Group" ("ELG") that was formed in October 2010 to generate awareness of the benefits of workplace giving programs across the leadership of Australian businesses. The goal of ACF is to achieve one million Australians giving to charity through their place of work by 2020. Members of the ELG have demonstrated best practice in engaging with their employees around community issues and are committed to leading the growth of the sector alongside the ACF. As a founding partner, JB Hi-Fi seeks to play its part in encouraging workplace giving as a low cost and highly efficient way of generating funds for the charitable sector and the Company's CEO, Richard Murray, is Chairman of the ELG. In addition to the Helping Hands and Change for Change contributions detailed above, JB Hi-Fi donated \$25,000 per annum to the ACF over each of the three years from 2012 to 2014. In 2015 the Company renewed its support for the ACF and increased its annual commitment to \$50,000 per annum for each of the three years from 2015 to 2017.



**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 2015. 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><b>Mr Greg Richards</b> 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 2006, Greg had over 25 years' experience in the investment banking industry. Most recently he was with Goldman Sachs JBWere for over 19 years where he was an equity partner for 17 years, working primarily in equity capital markets. Greg is currently a consultant to Onsite Rental Group.</p>
<p><b>Mr James King</b> 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 Fosters Group Limited as Managing Director Carlton &amp; United Breweries and Managing Director Fosters 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><b>Ms Beth Laughton</b> 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 companies in a range of industries including specialty retail. For 12 years her primary focus was on information technology, telecommunications and entertainment. She is also a member of the Board of GPT Funds Management Limited and of its Audit, Compliance &amp; Risk Management Committee and of the Defence SA Advisory Board and its Audit &amp; Risk Management Committee. Beth was a non-executive director and Chairman of the Audit Committee of Sydney Ferries from 2004 to 2010, a non-executive director of Port Adelaide Maritime Corporation from 2006 to 2007, a non-executive director and member of the Audit Committee of the ASX listed Australand Property Group companies between May 2012 and October 2014, and Chair of the Audit Committee and a Non-Executive Director of CRC Care Pty Ltd from March 2012 to December 2014. Beth was appointed to the JB Hi-Fi Board in May 2011 and became Chairman of the Audit &amp; Risk Management Committee on 1 June 2012.</p>
<p><b>Mr Gary Levin</b> Non-Executive Director B.Comm, LLB</p>	<p>Gary has over 30 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 Baby Bunting Group Ltd and 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><b>Mr Richard Uechtritz</b> Non-Executive Director</p>	<p>Richard has over 30 years' experience in retailing. He was co-founder of Australia's two leading photo chains, Rabbit Photo and Smiths Kodak Express. He was also a director of Kodak (Australasia) Pty Ltd. Richard led the management buy-in of JB Hi-Fi in July 2000 and was CEO and Managing Director until his resignation from these positions in May 2010. Richard re-joined the Board in April 2011 as a non-executive director. He is also a non-executive director of Seven Group Holdings Limited.</p>

**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 has over 20 years' experience in retail and finance. He joined JB Hi-Fi as CFO in 2003 and took the business through the IPO process. Prior to this Richard worked with Deloitte for 10 years. He is currently Chairman of the Australian Charities Fund Employee Leadership Group, which aims to encourage Australian businesses to set up workplace giving programs.

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 & in England & Wales.

Doug was appointed Company Secretary in June 2012. Doug joined JB Hi-Fi as General Counsel in September 2010 and has over 20 years' legal 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	May 2012 – October 2014
	Richard Uechtritz	Seven Group Holdings Limited

**Principal activity**

The Group's principal activity in the course of the financial year was the retailing of home consumer products. The Group offers a wide range of leading brands with particular focus on consumer electronics, software including music, games and movies, whitegoods and appliances.

There have been no significant changes in the 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 20 to 27.

**Changes in state of affairs**

*Capital Management*

Between 8 September 2014 and 12 September 2014 the Company purchased 291,364 shares pursuant to an on-market buy-back in order to offset the dilutionary impact of shares issued in August and September 2014 pursuant to the exercise of employee share options. The cost to the Company of purchasing these shares was \$4,970,000. The highest price paid by the Company was \$17.20 and the lowest price paid by the Company was \$16.96.

**Subsequent events**

On 10 August 2015, the Company announced that it would conduct an on-market buy-back in order to offset the dilutionary impact of shares issued pursuant to the exercise of employee share options between the date of the previous buy-back and 4 September 2015. The maximum number of shares that will be purchased is 776,610 and the buy-back is scheduled to commence in September 2015.

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 2014, as detailed in the Directors' Report for that financial year, an interim dividend of 55.0 cents per share and a final dividend of 29.0 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 28 February 2014 and 5 September 2014 respectively.

In respect of the financial year ended 30 June 2015, an interim dividend of 59.0 cents per share was paid to the holders of fully paid ordinary shares on 27 February 2015 and the directors have declared the payment of a final dividend of 31.0 cents per share, to be paid to the holders of fully paid ordinary shares on 11 September 2015. Both dividends are franked to 100% at the 30% corporate income tax rate. The total dividend for the financial year of 90.0 cents per share represents a payout ratio of just over 65% of the full year earnings.

## Indemnification of officers and auditors

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

## Directors' meetings

The following table sets out the number of directors' meetings (including meetings of Committees of directors) held during the 2015 financial year and the number of meetings attended by the members of the Board or the relevant Committee. During the financial year, 13 Board meetings, 6 Remuneration Committee meetings and 6 Audit and Risk Management Committee meetings were held.

Directors	Board of Directors		Remuneration Committee		Audit and Risk Management Committee	
	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>
G. Richards	13	13	6	6	–	–
J. King	13	13	6	6	6	6
B. Laughton	13	13	–	–	6	6
G. Levin	13	13	6	6	6	6
R. Uechtritz	13	13	–	–	–	–
R. Murray	13	13	–	–	–	–

**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 <sup>(i)</sup>	100,000	2,000	102,000	446,782	–	446,782

(i) Excludes any options that may be granted by the Board in August 2015. 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 2015.

**Remuneration Report**

The Remuneration Report, which forms part of this Directors' Report, is presented separately on pages 28 to 58.

**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 the Company's auditor.

In FY2015 the Company engaged its auditor to assist with the implementation of a customer relationship management tool for its commercial business. As disclosed in note 8 to the financial statements, the fee for this work was \$511,507. The directors are satisfied that the provision of these non-audit services during the year by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Based on advice received from the Audit and Risk Management Committee, the directors are of the opinion that these services as disclosed in note 8 to the financial statements do not compromise the auditor's independence, for the following reasons:

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

**Auditor's independence declaration**

The auditor's independence declaration is included on page 59 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

10 August 2015



**Richard Murray**

Chief Executive Officer

**OPERATING AND FINANCIAL REVIEW**

**OVERVIEW OF OPERATIONS**

The Group sells the following products in Australia and New Zealand:

- consumer electronics including televisions, audio equipment, computers and cameras;
- software (CDs, DVDs, Blu-ray discs and games);
- whitegoods, cooking products and small appliances;
- telecommunications products and services;
- musical instruments; and
- digital content (music, books and video).

The Group also provides information technology and consulting services.

The Group holds significant market-share in many of its product categories.

The Group’s sales are primarily from its branded retail store network. Sales are also generated from the Group’s branded online stores, its commercial and education solutions offer and its JB Hi-Fi Now digital content platform. Further detail is set out below.

As at 30 June 2015 the Group operated the following sales channels:

- “JB Hi-Fi” – 144 physical stores and an online store;
- “JB Hi-Fi Home” – 43 physical stores;
- “JB Hi-Fi Now” – online digital content platform; and
- “JB Hi-Fi Commercial & Education” (since renamed “JB Hi-Fi Solutions”) – selling products and services to the commercial, government and education sectors, including insurance replacements.

**FINANCIAL PERFORMANCE – HIGHLIGHTS**

	<i>FY15</i>	<i>FY14</i>	<i>Mvt</i>
Total Sales	\$3,652.1m	\$3,483.8m	+4.8%
Gross Margin	21.86%	21.70%	+16 bps
Cost of Doing Business (“CODB”)	15.25%	15.19%	+6 bps
Earnings Before Interest and Tax (“EBIT”)	\$200.9m	\$191.1m	+5.1%
EBIT Margin	5.50%	5.49%	+1.5 bps
Net Profit After Tax (“NPAT”) <sup>1</sup>	\$136.5m	\$128.4m	+6.4%
Earnings per share (“EPS”)	137.9 cps	128.4 cps	+7.4%
Total dividend - fully franked <sup>2</sup>	90.0 cps	84.0 cps	+7.1%

<sup>1</sup> Profit attributable to owners of JB Hi-Fi Limited.

<sup>2</sup> The final FY2015 dividend is 31.0 cents per share, to be paid on 11 September 2015 (record date 28 August 2015). The full year dividend of 90.0 cents per share represents a payout ratio of just over 65% of FY2015 earnings.

**SALES PERFORMANCE**

Total sales were up 4.8% to \$3,652.1 million (2014: \$3,483.8 million) and comparable sales growth was 2.9% (Australia: 3.1%, New Zealand: -4.5%). Sales gained momentum through FY2015, with positive comparable sales of 7.4% in the second half of FY2015.

Significant factors in the sales performance were as follows:

**Australia**

- Sales grew by 5.0% to \$3,456.0 million with comparable sales up 3.1%, 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 JB Hi-Fi Solutions and the Group’s online operations.

- In the second half of FY2015, total sales were up 9.4% and comparable sales growth was 7.8%.
- By value, sales were split between hardware and services at 83.3% and software at 16.7% (FY2014: 81.3%/18.7%). Hardware and services is defined as all sales excluding the music, movies and games software categories.
- Hardware and services sales were up 8.1% for the financial year with comparable sales up 6.2%, driven by growth across Telecommunications, Fitness, Accessories, Computers, IT and Home appliance categories; offset by softness in the Visual market.
- Software sales (music, movies and games) were -8.2% and, on a comparable basis, -9.7%.

#### **New Zealand**

- Total sales were down 0.1% to NZ\$211.1 million and comparable sales growth was -4.5%.
- In the second half of FY2015, total sales grew by 5.1% and comparable sales growth was -2.1%.

#### **GROSS MARGIN**

Gross margin was 21.86% for the period, up 16 bps from the previous financial year.

Significant factors in the gross margin performance were as follows:

- in Australia, the gross margin in FY2015 increased by 15 bps to 22.07%, driven primarily by a combination of sales mix and improved buying terms.
- in New Zealand, gross margin increased by 13 bps to 18.16% due to improved buying terms.

#### **COST OF DOING BUSINESS**

Cost of doing business ("CODB") was 15.25% for the period, up 6 bps from cost of doing business of 15.19% 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 2 bps to 15.20%. Store wages remain well controlled, as the Group continued to invest in the JB Hi-Fi Home store rollout. Total operating costs were in line with internal expectations.
- in New Zealand, CODB increased by 82 bps to 16.21%, driven primarily by reduced operating leverage.

#### **EARNINGS**

EBIT was up 5.1% to \$200.9 million from EBIT of \$191.1 million in the previous financial year and the resulting EBIT margin was 5.50%, up 1.5 bps from EBIT margin of 5.49% in the previous financial year. This was a pleasing result with sales and earnings momentum growing through the financial year. Trading in June was particularly strong as the Group cycled a soft trading period in the prior year and enjoyed the benefits of solid sales growth assisted by the small business tax incentive.

Significant factors in EBIT performance were as follows:

- In Australia, EBIT was up 5.9% to \$199.4 million and EBIT margin was up 5 bps from 5.72% in the previous financial year to 5.77%.
- In New Zealand, EBIT was down 49.5% to NZ\$1.6 million and EBIT margin was down 73 bps from 1.47% in the previous financial year to 0.74%.

Net profit after tax was up 6.4% to \$136.5 million. Earnings per share were up 7.4% from 128.4 cps to 137.9 cps.

Net interest expense in FY2015 was down 36.3% to \$5.4 million, driven primarily by lower debt levels and improved working capital flows.

The effective tax rate in FY2015 was 30.2%, up from 29.7% in FY2014, driven primarily by a reduction in the number of employee share options exercised during FY2015 (333,956 in FY2015, compared to 1,438,091 in FY2014).

## CAPITAL MANAGEMENT AND DIVIDENDS

The Group regularly 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 8 September 2014 and 12 September 2014, the Company undertook an on-market buy-back of 291,364 ordinary shares (representing approximately 0.3% of the total issued share capital of the Company) at a cost of \$4,970,000. This buy-back was conducted in order to offset the dilutionary impact of the ordinary shares issued to employees under the Company's share option plans during August and September 2014. The highest price paid by the Company for shares as part of the on-market buy-back was \$17.20 on 8 September 2014, and the lowest price paid by the Company for shares as part of the on-market buy-back was \$16.96 on 10 September 2014.

On 10 August 2015 the Group announced its intention to neutralise the impact of ordinary shares issued under the Company's employee share option plans between the date of the previous buy-back and 4 September 2015. This will be done via an on-market buy-back of ordinary shares, to commence in September 2015. Further detail is provided in the "Subsequent Events" section of the Directors' Report.

The total dividend for the 2015 financial year of 90.0 cents per share represents a payout ratio of just over 65% of the full year earnings. 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 2015 financial year of 31.0 cents per share fully franked will be paid on 11 September 2015 with a record date of 28 August 2015.

## FINANCIAL POSITION

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

- In June 2015, the Group renewed its term debt facility of \$200.0 million until June 2018. 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 in November each year.
- At the end of the financial year the Group had total interest bearing liabilities of \$140.0 million.
- Net debt decreased from \$136.2 million to \$90.3 million, in line with internal expectations.
- The financial covenants included in the Group's financing facilities are the leverage and fixed charges cover ratios.
- During the financial year 333,956 ordinary shares were issued to employees under the Company's share option plans. Between 8 September 2014 and 12 September 2014, the Company undertook an on-market buy-back of 291,364 ordinary shares to neutralise the impact of shares issued in August and September 2014. Further detail is set out above.

## INVESTMENTS FOR FUTURE PERFORMANCE

Net cash outflow on investing activities was \$44.4 million, up from \$38.2 million in the prior year. Investing activities comprised Capital expenditure and Acquisitions as set out below.

### Capital expenditure

Investments of \$42.5 million were made during the financial year in capital expenditure projects, an increase of \$6.6 million from \$35.9 million during the previous financial year. These projects primarily consisted of new store openings, JB Hi-Fi Home store conversions, store relocations and upgrades, and online and digital projects.

### Acquisitions

During the 2015 financial year, the Group paid the final tranche of \$2.4 million of the consideration for its acquisition of the final 49% interest in the Network Neighborhood business (which was subsequently renamed JB Hi-Fi Education Solutions).

These investing activities are anticipated to contribute towards earnings growth in the 2016 financial year and beyond.



## WORKING CAPITAL

Inventory levels were in line with internal expectations. Total inventory on hand increased from the previous financial year by \$20.2 million, driven primarily by the Company's investment in inventory for new stores and JB Hi-Fi Home, as well as an increase in inventory in existing stores. This increase was partially offset by the transition to a consignment stock model with certain suppliers. Inventory turnover was 6.1 times (FY2014: 6.2 times).

After adjusting prior year (FY2014) creditor days for year-end timing differences (opening payables position adjusted for 30 June 2013 falling on a weekend), creditor days increased 0.3 days on the previous financial year to 40.2 days. Total creditors increased by \$22.6 million to \$325.6 million.

Financial and operating leverage remains low and is evidenced by solid fixed charges cover of 3.4 times (FY2014: 3.3 times) and interest cover of 33.9 times (FY2014: 21.6 times). The Company's gearing ratio is 0.6 (FY2014: 0.8).

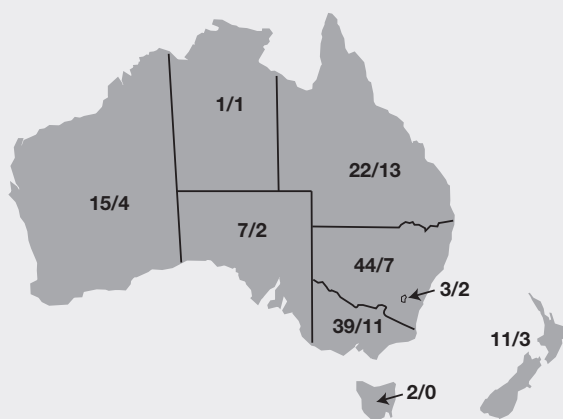
## STORES

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 2015, the Group had 187 physical stores (Australia: 173, New Zealand: 14).

The store movements during FY2015 and the store locations as at 30 June 2015 are set out below.

	FY15			
	FY14	Opened	Converted	Total
<b>Australia</b>				
JB Hi-Fi	147	1	(15)	133
JB Hi-Fi HOME	22	3	15	40
	169	4	–	173
<b>New Zealand</b>				
JB Hi-Fi	13	–	(2)	11
JB Hi-Fi HOME	–	1	2	3
	13	1		14
<b>TOTAL</b>	182	5	–	187
<b>Store type:</b>				
JB Hi-Fi	160	1	(17)	144
JB Hi-Fi HOME	22	4	17	43
	182	5	–	187
<b>Store format:</b>				
Shopping centres	99	2	2 <sup>1</sup>	103
Other	83	3	(2) <sup>1</sup>	84
	182	5	–	187

<sup>1</sup> Relocations



**JB HI-FI (144)/HOME (43)**

## ONLINE AND DIGITAL

The Group continues to leverage the benefits of its strong online and digital presence combined with its bricks and mortar locations. The Group's goal is to create a "seamless customer experience" whereby its online and digital sites, combined with its physical locations, provide customers with a choice as to how they wish to shop with JB Hi-Fi. In FY2015, online sales grew 16.9% on the previous financial year to \$87.7 million or approximately 2.4% of sales (FY2014: 2.2%). Unique visitations to JB Hi-Fi's websites averaged 1.2 million per week during FY2015.

## JB HI-FI SOLUTIONS (PREVIOUSLY JB HI-FI COMMERCIAL AND EDUCATION)

The Group has recently rebranded its commercial and education solutions offer as JB Hi-Fi Solutions, in line with its plan to provide an integrated offer of both products and services to business, government and education clients across Australia. JB Hi-Fi Solutions consists of four divisions (Business Products division, Education division, Insurance Services division and Business Telco division). JB Hi-Fi Solutions 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 HOME

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. 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 sees the introduction of these product categories as a logical extension to its current entertainment categories.

A JB Hi-Fi Home store requires approximately 400 square metres of additional floor space (compared to a standard JB Hi-Fi store) with the total JB Hi-Fi Home store size being approximately 1,750 square metres. The Company targets incremental sales per store of approximately \$3 million in the first year post conversion, increasing to approximately \$5 million over the medium term as the JB Hi-Fi Home store rollout achieves scale.

As at 30 June 2015, the Group had 43 JB Hi-Fi Home branded stores, including 3 in New Zealand. During FY2015, the Group converted 17 existing stores to JB Hi-Fi Home branded stores and opened 4 new JB Hi-Fi Home branded stores. The Company anticipates opening 5 new JB Hi-Fi Home stores and converting 16 additional existing stores to the JB Hi-Fi Home brand in FY2016, with 64 JB Hi-Fi Home stores expected by the end of FY2016. The Company's current target of 75 JB Hi-Fi Home stores should be reached during FY2017.

In addition to the JB Hi-Fi Home roll-out, the Group is also introducing small appliances into existing JB Hi-Fi stores. These stores will have their layout reconfigured but will not be rebranded to JB Hi-Fi Home. This store format is suited to JB Hi-Fi stores that are located within shopping centres, or where a JB Hi-Fi Home store is or will be located within that JB Hi-Fi store's catchment area. The capital investment for this phase is small relative to a JB Hi-Fi Home conversion. Small appliances have been added to 4 JB Hi-Fi stores to date, with pleasing results and the Group anticipates having 14 additional existing JB Hi-Fi stores with a small appliances offer by November 2015. In the long term the Group expects most stores to carry home appliances, with the range (i.e. small appliances or full JB Hi-Fi Home offer) tailored to suit each specific store.

## SUPPLY CHAIN

The Group continues to develop its low-cost, fit-for-purpose supply chain and logistics solution. Facilities are operating in Melbourne, Sydney, Perth, Brisbane and Auckland whilst, in other states and regional centres where stand-alone facilities are not currently economic, the JB Hi-Fi Home rollout 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 FY2015.

### Competitive advantages

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

- one of Australia's and New Zealand's largest ranges of home entertainment, consumer electronics products, whitegoods and small appliances 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. The Group is innovative in driving costs down and maintaining the lowest cost of doing business of any major listed Australian retailer.
- motivated, passionate, loyal 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 – 3rd in the 2015 Corporate Reputation Index released by AMR and the Reputation Institute (1st in 2014, 3rd in 2012 and 2013).
- established and successful online platform with sales growing approximately 16.9% from the previous financial year and accounting for approximately 2.4% of FY2015 sales.
- established digital content platforms, allowing the Group to evolve with its customers.

### **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. 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.
- A loss or erosion of JB Hi-Fi's reputation – A decline in the high level of loyalty and trust that JB Hi-Fi enjoys with its customers could compromise its market leading position and adversely affect JB Hi-Fi's operating and financial performance. This could occur as a result of a wide range of factors or events, including:
  - a loss or erosion of JB Hi-Fi's reputation for price leadership and high levels of customer service. The Group seeks to mitigate this risk through careful monitoring of its competitors' pricing and market share data, senior management monitoring of customer complaints, and use of customer service and engagement analytics;
  - a major information security breach of JB Hi-Fi's IT systems. The Group seeks to mitigate this risk through investment in IT security measures;
  - a major workplace health and safety incident or customer injury occurring in a JB Hi-Fi store. The Group seeks to mitigate this risk through having appropriate occupational health and safety procedures in place for all of its sites; or
  - a significant breach of regulatory or legislative requirements. The Group seeks to mitigate this risk through appropriate staff training on key regulatory and legislative requirements relevant to its business, as well as making legal and regulatory compliance a key focus of the management team.
- Consumer discretionary spending and changes in consumer demands – the Group is exposed to consumer spending cycles and changes in consumer demands. The Group maintains its relevance using its strong market position supported by its everyday low price proposition. The Group's stores, which are both in convenient and high traffic locations, seek to maximise both destination and impulse sales. The Group also closely monitors changes in the economic environment, consumer demand and new products and is able to respond quickly to such changes.
- Online competition taking sales from 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. JB Hi-Fi will maintain an in-store presence while the category is still providing solid returns.
- Failure to maintain key supplier relationships – a failure to maintain key supplier relationships could adversely impact on the Group's operating and financial performance. However, the Group has significant supplier management processes to mitigate this risk and, whilst at any one time certain products and suppliers are more important than others, the large and diverse range of products stocked by JB Hi-Fi means that 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 and services sales as a percentage of total sales increased from 74.8% of total sales in FY2011 to 83.4% in FY2015 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 Group's cost of doing business is impacted by the annual Fair Work Award wage reviews (which have resulted in increases totalling 16.2% over the past 5 years to 30 June 2015). However, the increasing scale of the Group's operations continues to deliver cost reductions which mean that higher wage costs can be offset to some extent by cost reductions in other areas.
- Price deflation – this has always been a feature of consumer electronics retail but has mostly been mitigated by increased volumes, technological advancements and, more recently, a weakening of the Australian dollar.
- Leasing arrangements – the ability to identify suitable sites and negotiate suitable leasing terms for new and existing stores is key to the Group's ongoing growth and profitability. The Group believes that it will continue to be able to do this as it has done successfully to date.
- Loss of, or inability to attract and retain, key staff – the Group's ability to attract and retain talented staff is critical to its operating and financial performance. In recognition of this, succession planning and executive/senior management team composition is a key focus for the Board and executive team.
- IT systems – the Group's increasing reliance on IT systems means that outages and disruptions could have a detrimental impact on its operating and financial performance, and any failure to maintain and upgrade its IT systems over time has the potential to inhibit the achievement of the Group's business initiatives. To mitigate the business interruption risk, the Group has documented disaster recovery processes (including off-site IT back-up infrastructure) and has undertaken disaster recovery testing. The Group also continues to invest and develop its IT resources and capabilities.
- Changes in regulatory environment – changes in the regulatory environment in which the Group operates may increase compliance costs, and even (in extreme cases) affect the ability of the Group to sell certain types of products and services or conduct certain activities. Whilst such changes are outside the control of the Group, the Group monitors proposed changes in the regulatory environment so that it can assess the impact of such changes and develop appropriate response strategies where possible.
- Finance - inability to access financing facilities. The Company has recently renewed its financing facilities and further detail is set out on page 22.

#### 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 pipeline of new properties. The Group anticipates opening 6 new stores in the 2016 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 5 new JB Hi-Fi Home stores will be opened and approximately 16 existing JB Hi-Fi branded stores will be converted to this format in FY2016 (3 already converted in July 2015), in addition to the 43 stores as at 30 June 2015. The Group's current target of 75 JB Hi-Fi Home stores should be reached during FY2017. In addition to the JB Hi-Fi Home roll-out, the Group is also introducing small appliances into existing JB Hi-Fi stores.
- 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.
- continued development of the JB Hi-Fi online site, aimed at enhancing the user experience across multiple platforms (e.g. computer, tablet & phone) to drive continued growth in online sales.
- expansion of the online product range and depth beyond that which is practical in store.
- significant opportunities to grow JB Hi-Fi Solutions and expand into new markets.
- improved supply chain and logistics 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 detailed on pages 25 to 26.

#### **TRADING OUTLOOK – as at 10 August 2015**

July 2015 sales update:

- total consolidated sales growth in July 2015 was 7.6% (July 2014: - 3.2%); and
- consolidated comparable sales growth in July 2015 was 5.7% (July 2014: -5.5%).

The sales result in July 2015 was a solid start to FY2016 as the Group cycled a soft trading period in the prior financial year. Key growth categories included Computers, Telco, IT and Home Appliances, whilst the Visual category continued to be a challenge.

In Australia, the Group expects to open 5 new JB Hi-Fi Home stores in FY2016 and to convert 13 existing stores to JB Hi-Fi Home. In New Zealand, the Group expects to open 1 new JB Hi-Fi store and convert a further 3 existing stores to JB Hi-Fi Home stores in FY2016.

The Group expects total sales in FY2016 to be circa \$3.85 billion.

## REMUNERATION REPORT (audited)

### Contents

- Summary (page 28)
- Executive Remuneration for FY2015 (page 30)
- Executive Remuneration Packages – Key Changes for FY2016 (page 38)
- Non-Executive Director Remuneration (page 39)
- Other Information (page 40)
- Key Management Personnel Compensation (page 41)
- Key Management Personnel Equity/Options (page 45)
- Share Options (page 51)

### SUMMARY

#### Remuneration Overview

The Board recognises that the performance of the Group depends on the quality and motivation of its people, including both the executives (being those persons listed as executives on page 30) and the approximately 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 – FY2015 Remuneration

The Board notes that the 2015 financial year has been a successful year for the Company, with management having delivered record revenue (increased by 4.8%), EBIT (increased by 5.1%) and EPS (increased by 7.4%). Over the period the Company's share price increased almost 6.5% from \$18.30 on 30 June 2014 to \$19.48 on 30 June 2015. Notwithstanding this performance, total executive remuneration has decreased from FY2014 as shown by the graph on page 36 and the table on page 41.

- **Remuneration Packages:** Richard Murray was appointed as CEO on 1 July 2014 with Nick Wells appointed CFO at this time. Remuneration packages for Richard and Nick were significantly lower than the packages for their predecessors in these roles.
- **Fixed Pay:** Fixed remuneration packages for the four executives who had been in their role for more than a year increased by between 3.0% and 5.0% from FY2014 to FY2015.
- **Short-term incentive:** The Company's short term incentive plan rewards performance against both financial and non-financial measures. Between 63% - 71% of the available short term incentive ("STI") was paid to each executive compared to FY2014 for which between 81% - 85% was paid.
- **Long-term incentives:** As was the case in 2013 and 2014, no options issued to executives in previous years vested in FY2015.
- **Fees for Non-Executive Directors:** Following a benchmarking analysis and remuneration recommendation, the fees for non-executive directors were increased in FY2015 for the first time since October 2010, in order to ensure that the remuneration levels remained competitive and that the Company is able to continue to attract and retain high calibre directors.

#### 2016 Executive Remuneration Packages – Key Changes

In setting FY2016 executive remuneration packages, the Company has decided to make a number of significant changes. These are:

- the introduction of deferred STI - To further enhance alignment with shareholder interests, the Company will introduce a component of deferred short term incentive for all executives. Executives will receive 90% of the FY2016 STI to which they are entitled in cash and the remaining 10% in shares which will be subject to a restriction on sale/disposal for 1 year after issue. It is the Company's intention to review the percentage of STI that will be subject to deferral with a view to increasing the deferred component in the next few years. The achievement of STI will continue to be subject to Group and individual performance targets;

- making all long-term incentives (“LTI”) subject to both service and performance based conditions - Retention based LTI grants were made to executives in FY15 in the context of the CEO transition and to recognise the lack of vesting under the LTI, notwithstanding strong company performance. With the Company now through the CEO transition period, the Company no longer considers retention based grants to be necessary and all of the FY2016 LTI grant will be subject to both performance and service based conditions;
- the LTI award will consist entirely of zero exercise price options (“Zepos”) - LTI grants previously comprised a combination of traditional options (with an exercise price) and Zepos. Given the fluctuation of the Company’s share price over recent years (which has largely been influenced by external factors beyond the control of the executives), there is a risk that even where performance conditions are met, the exercise price under the traditional options will not exceed the market price and therefore hold no value for executives, notwithstanding the delivery of strong company performance. Accordingly, the Company no longer considers traditional options to be an appropriate instrument to give effect to its objectives of rewarding and motivating executives; and
- changes to the vesting schedule for LTIs – 2016 LTIs will require compound EPS growth of between 4% - 8% (FY2015: 5%-10%), with 50% vesting if 5% EPS growth is achieved (FY2015: 70% vesting at 5% EPS growth).

Further detail is provided on page 38 of this Report.

**EXECUTIVE REMUNERATION FOR FY2015**

**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 Director*

Richard Murray                      Chief Executive Officer

*Executives*

Cameron Trainor	Merchandise Director
Peter Green	Operations Director
Nick Wells	Chief Financial Officer
Tim Carter	Online & Commercial Director (from 8 September 2014)
Scott Browning	Marketing Director (until 17 February 2015)
George Papadopoulos	Technology Director (until 17 February 2015)

**Group executive remuneration policy – 2015 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, retain 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 40.

- In setting the 2015 financial year remuneration packages, the Board and the Remuneration Committee considered a number of factors, including market practice and benchmarking analysis comparing the newly appointed CEO’s and CFO’s executive remuneration levels with comparator groups of companies. The Committee also obtained a remuneration recommendation regarding the incoming CEO’s remuneration package. 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’ remuneration) is not available. The Company sets remuneration packages for the executives taking these factors into account.
- Remuneration packages for Richard Murray (CEO) and Nick Wells (CFO) were significantly lower than the packages for their predecessors in these roles, recognising that these executives were new to their roles and allowing scope for increases as the executives gain experience and perform in these roles. A similar approach was adopted in setting a remuneration package for Tim Carter who joined the company as Online & Commercial Director in September 2014.
- Fixed remuneration packages for individual executives who had been in their role for more than a year (Cameron Trainor, Scott Browning, Peter Green and George Papadopoulos) increased by between 3.0% and 5.0% from FY2014 to FY2015. 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 Remuneration Committee also considers current market conventions with regard to the splits between fixed, short-term and long-term incentive elements. The mix of remuneration for the new CEO was more heavily geared towards LTI, with a lower proportion of fixed remuneration and STI, than his predecessor. The splits for FY2015 (excluding the One-Off Retention Zepos described on page 34) were as follows:



<b>Executive</b>	<i>Fixed</i>	<i>STI</i>	<i>LTI</i>	<i>Total</i>
R. Murray	40%	30%	30%	100%
C. Trainor	47%	34%	19%	100%
P. Green	51%	30%	19%	100%
N. Wells	46%	25%	29%	100%
T. Carter	50%	23%	27%	100%
S. Browning	47%	34%	19%	100%
G. Papadopoulos	51%	30%	19%	100%

Further details on each of the key elements of executive remuneration for the 2015 financial year are set out below.

### **Fixed Remuneration**

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

### **Short-term Incentive**

The annual STI plan for FY2015 took the form of a cash bonus subject to financial and non-financial performance conditions. The structure of the STI plan for the 2015 financial year was generally consistent with that for the 2014 financial year and is comprised of the following elements.

#### *Quantitative Bonus – Group EBIT performance*

The Group quantitative element of executives' STIs in FY2015 was based on the following criteria:

- if FY2015 statutory EBIT was more than FY2014 statutory EBIT then the STI would apply. No part of the STI would be paid if FY2015 statutory EBIT was the same as, or less than, FY2014 statutory EBIT;
- if FY2015 statutory EBIT was equal to, or exceeded, 110% of FY2014 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 FY2015 statutory EBIT was 105.1% of FY2014 statutory EBIT, 51% of the available Quantitative Bonus (Group EBIT performance) was paid to executives for FY2015.

*Quantitative Bonus – Individual performance*

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

*Qualitative Bonus – Individual performance*

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

*Details of STI available by executive*

Executives	Quantitative Bonus - Group performance	Quantitative Bonus - Individual performance				Qualitative Bonus - Individual performance	
	EBIT	Inventory and Gross Margin	Store Operating Metrics	Capex and Debt Management	Commercial and Online	Non-financial	Total Available
R. Murray	75%					25%	100%
C. Trainor	60%	15%				25%	100%
P. Green	60%		15%			25%	100%
N. Wells	60%			15%		25%	100%
T. Carter	60%				15%	25%	100%

Note: No information is included for S. Browning and G. Papadopoulos as they did not receive any FY2015 STI having left the Company on 17 February 2015.

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

- Succession planning and team development;
- Investor relations;
- Strategic initiatives and competitive positioning of the Company;
- Internal process improvements;
- Expenditure control processes and programs;
- Supply chain initiatives;
- Workplace health & safety;
- Risk management;
- Internal and external engagement on key initiatives; and
- Internal reporting processes.

#### Details of STI paid per executive

Each executive's performance has been measured against the applicable targets. The resulting percentage of STI actually paid of each element for the 2015 financial year is detailed in the following table:

Executives	Quantitative Bonus - Group performance	Quantitative Bonus - Individual performance				Qualitative Bonus - Individual performance	Total Paid
	EBIT	Inventory and Gross Margin	Store Operating Metrics	Capex and Debt Management	Commercial and Online	Non-financial	
R. Murray	51%					100%	63%
C. Trainor	51%	100%				100%	71%
P. Green	51%		100%			100%	71%
N. Wells	51%			100%		100%	71%
T. Carter	51%				100%	100%	71%

Note: No information is included for S. Browning and G. Papadopoulos as they did not receive any FY2015 STI having left the Company on 17 February 2015.

#### Long-Term Incentive ("LTI") Plan

As with 2012, 2013 and 2014, no options granted to executives (whilst they were executives of the Company) vested in FY2015, as the performance hurdles were not satisfied. The only options held by executives which vested during FY2015 were 11,333 options held by Nick Wells and 5,000 options held by George Papadopoulos, in each case issued prior to these persons becoming executives.

#### Form of 2015 Executive LTIs

Executive LTIs for FY2015 only were made up of the following elements:

- Performance and Service Based LTI (80% of available LTI excluding the One-Off Retention Zepos referenced below) – these were split equally between:
  - share options with exercise prices based upon the Company's share price following the release of its results for the 2014 financial year, EPS based performance hurdles, and a service based vesting condition ("Standard Options"); and
  - share options with zero exercise prices, EPS based performance hurdles, and a service based vesting condition ("Standard Zepos").

The service based vesting condition provides that one third of these Standard Options and Standard Zepos will vest on each of the 3rd, 4th and 5th anniversary of issue provided that all other vesting conditions are satisfied. The Company believes that this vesting period appropriately aligns the LTIs with longer term performance. The exercise price for Standard Options 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 2014 full year results, being \$17.72, except in respect of those Standard Options issued to Tim Carter (who joined the Company in September 2014) for which the exercise price for Standard Options is the closing volume weighted average share price of the Company's shares over the 5 trading days following and including 27 November 2014, being \$15.58. Details of the EPS based performance hurdles are set out below.

- 2015 Service Based LTI (20% of available LTI excluding the One-Off Retention Zepos referenced below) – share options with zero exercise prices, service based vesting conditions but no performance hurdles ("Standard Retention Zepos"). One third of these Standard Retention Zepos will vest on each of the 3rd, 4th and 5th anniversary of issue if the relevant executive is still employed by the Company at that time, or if the Company terminates the executive's employment before that date other than for cause (in which case the options will vest on the anniversaries referred to above). The Board and Remuneration Committee believe that the purpose of LTI is to both reward and retain executives and, notwithstanding the strong performance of the Company taking account of market conditions, no options granted to executives, whilst they were executives, had vested in FY2012 – FY2014 (inclusive). Accordingly, to guard against the risk of executives not attributing any value to the LTI element of their package and to give effect to this dual purpose of reward and retention, the Board believed that for FY2015 only it was 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.

*LTI Performance Hurdles*

The EPS performance hurdles referred to above require compound annual EPS growth from the statutory 2014 EPS base of 128.4 cents per share. 70% of these 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. At the time of issue the Company believed that compound annual EPS growth hurdles of 5% to 10% were aligned with the earnings outlook of the Group, taking account of consensus forecasts. These EPS growth hurdles are consistent with EPS growth hurdles applying to executive share options issued in FY2013 and FY2014.

The following table illustrates the EPS targets for options issued in FY2015 with 5% and 10% compound annual EPS growth:

Year	FY2017	FY2018	FY2019
EPS hurdle - 5% compound growth	148.6	156.1	163.9
<i>Required increase in EPS from FY2014 EPS</i>	16%	22%	28%
EPS hurdle - 10% compound growth	170.9	188.0	206.8
<i>Required increase in EPS from FY2014 EPS</i>	33%	46%	61%

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 2014, due to vest in August 2017 and expire in August 2020, assessed against an EPS hurdle of 10%.

Year	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
<b>EPS</b>	Grant Base EPS = 128.4	n/a	n/a	Test – Required EPS = 170.9	Retest – Required EPS = 188.0	Retest – Required EPS = 206.8	n/a

*One-Off Grant of Retention Zepos*

In addition to the LTI elements described above some, but not all, executives also received an additional one-off grant of options with a zero exercise price and a service condition but no performance hurdles (“One-Off Retention Zepos”). This one-off issue of additional share options with a zero exercise price was made in July 2014 to each of the executives at that time (Cameron Trainor, Scott Browning, Peter Green and George Papadopoulos) other than the new CEO (Richard Murray) and new CFO (Nick Wells), and was aimed at retention of these executives following the CEO transition in July 2014. 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) and accordingly these options granted to Scott Browning and George Papadopoulos lapsed on their exit from the Company in February 2015. The values of the one-off grants were as follows: Cameron Trainor \$399,989; Peter Green \$199,986; Scott Browning \$199,986; and George Papadopoulos \$199,986.

*Further Information on LTIs*

The issue of options for the 2015 financial year to Richard Murray, the executive director of the Company, was approved by shareholders at the Company’s Annual General Meeting in October 2014.

Further details of the terms of these options, including service and share price conditions are included under the heading “Group share option plans” on page 51.

Changes made to the Executive LTI structure for FY2016, including reverting to a policy whereby all long-term incentives issued to executives are subject to appropriate performance conditions are set out on page 38.

## Relationship between financial performance and remuneration

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

The financial performance of the Group is summarised in the table below, whilst the alignment of executive remuneration to the performance of the Group is detailed in the graph on page 36.

	FY11	FY12	FY13	FY14	FY15	Growth	
						FY15	Last 5 years <sup>(iv)</sup>
1. Financial performance:							
Sales (\$m)	2,959.3	3,127.8	3,308.4	3,483.8	3,625.1	4%	6%
EBIT (\$m)	196.0 <sup>(i)</sup>	161.5	177.8	191.1	200.9	5%	3%
Net profit attributable to owners of the Company (\$m)	134.4 <sup>(i)</sup>	104.6	116.4	128.4	136.5	6%	3%
Basic EPS (cents)	124.7 <sup>(i)</sup>	105.9	117.7	128.4	137.9	7%	5%
2. Shareholder value created:							
Company share price at the end of the reporting period (\$)	17.07	8.86	16.81	18.30	19.48	6%	0%
Market capitalisation (\$m)	1,682.0	875.8	1,663.3	1,810.7	1,928.3	6%	(1%)
Enterprise value <sup>(ii)</sup> (\$m)	1,887.3	985.9	1,720.3	1,946.9	2,018.7	4%	(1%)
Movement in enterprise value during the financial year (\$m)	(196.7)	(901.4)	734.4	226.7	71.7		
Dividends paid to shareholders during the financial year (\$m)	88.4	77.0	65.3	77.2	87.2		
Off market share buy-back (\$m)	173.3	–	–	–	–		
On market share buy-back (\$m)	–	–	–	25.8	5.0		
<b>Shareholder value created<sup>(iii)</sup></b>							
- per annum (\$m)	65.0	(824.4)	799.7	329.7	163.9		
- cumulative (\$m) since IPO	2,092.4	1,268.0	2,067.7	2,397.4	2,561.2	7%	25% <sup>(v)</sup>

(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.

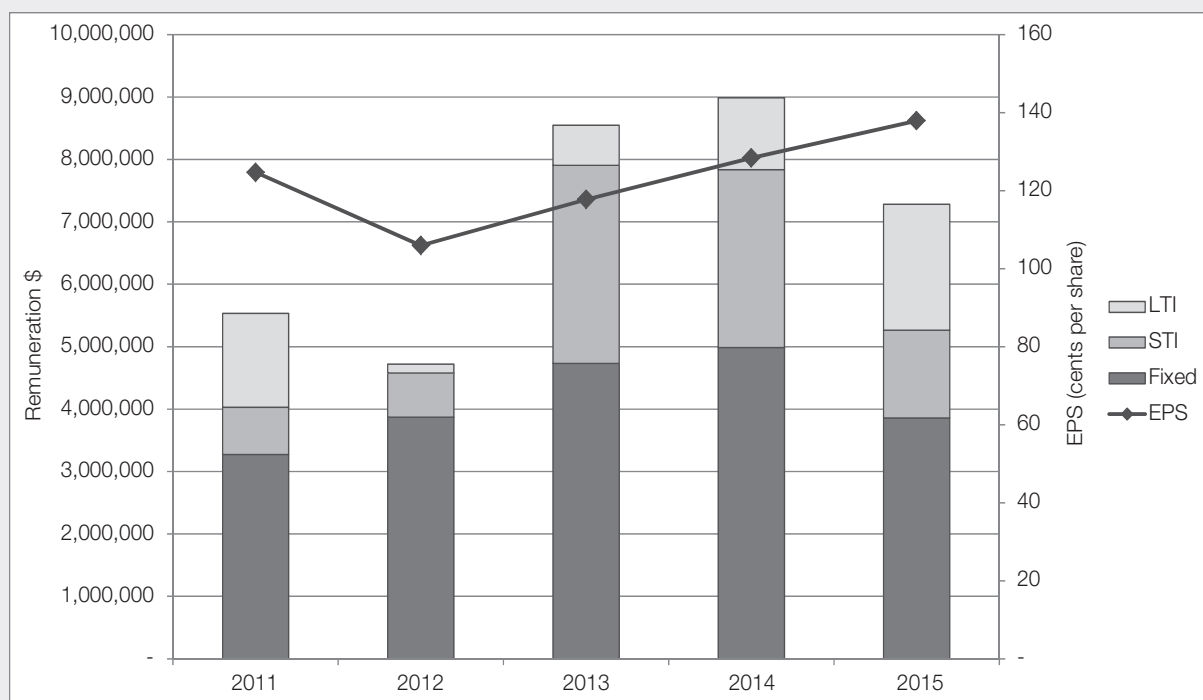
(iv) Percentage movement shown is the compound annual growth rate over the last 5 years.

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

The graph below shows the relationship between total executive remuneration and EPS over the past 5 years. Whilst EPS has increased from FY2014 to FY2015:

- total executive remuneration decreased in FY2015, largely as a result of lower remuneration packages for executives new to their role compared to their predecessors and the departure of two executives in February 2015 (which was only partially offset by the recruitment of a new executive in September 2014);
- Short Term Incentive earned by executives for FY2015 decreased compared to FY2014. This was as a result of the current executives each receiving between 63%-71% of their available STI rather than between 81% - 85% as received in FY2014, and as a result of the departure of two executives in February 2015 which was only partially offset by the recruitment of a new executive in September 2014; and
- although only a very small proportion of options granted to executives actually vested in FY2015 (being options granted before the holders became executives) the expense incurred by the Company in relation to executive LTIs in 2015 (as shown in the graph) has increased from 2014 primarily: (i) because the growth in the Company's EPS over the past 4 financial years has increased the likelihood of options vesting in the future; and (ii) as a result of the grant of the One-Off Retention Zepos to certain executives as detailed on page 34. This increase has been partially offset by the departure of two executives compared to the recruitment of only one executive.

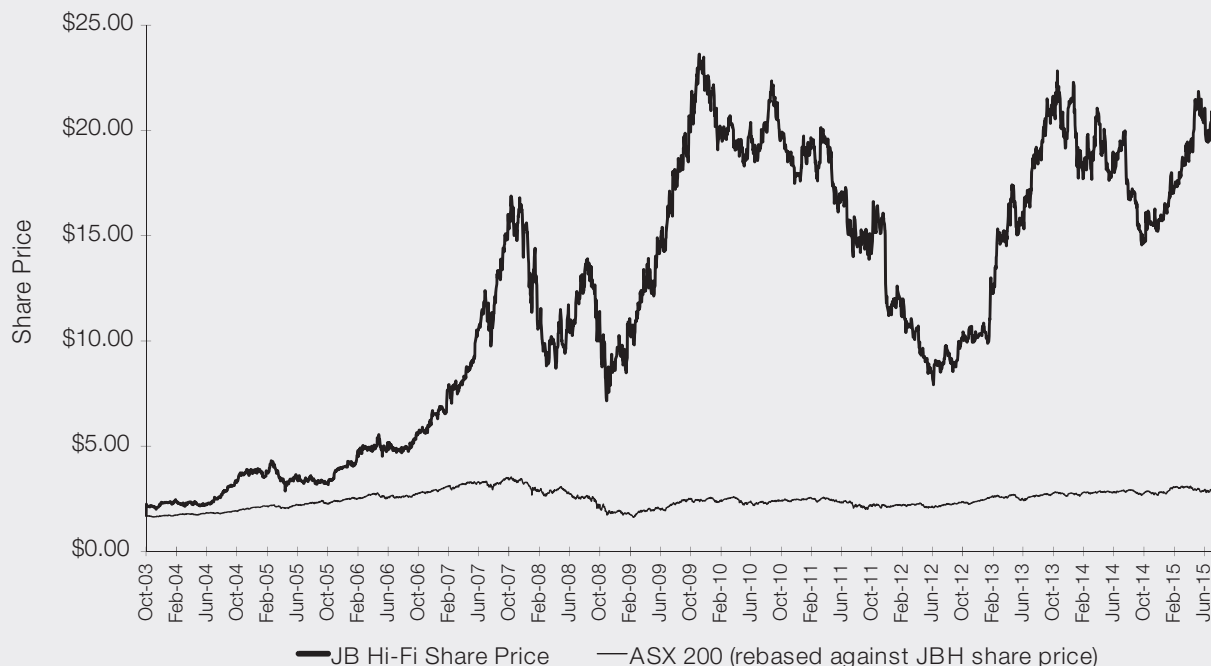
Executive remuneration and EPS over the last 5 financial years:



Notes

1. 2011 EPS is normalised to exclude the impact of the Clive Anthonys restructuring charge.
2. 2012 LTI expense is the 2012 period LTI expense only, excluding any prior period write-backs.
3. 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. An additional executive, Tim Carter, joined the executive team in September 2014 and FY2015 therefore only includes 10 months of Mr Carter's remuneration.
4. 2014 excludes the one-off payment made to Terry Smart in relation to his departure from the Company on 30 June 2014 as detailed on page 43. 2014 LTI expense shown includes Mr Smart's full LTI expense for FY2014 assuming he had not retired and the expense had not been written back.
5. Scott Browning and George Papadopoulos left the Company on 17 February 2015 and FY2015 therefore only includes 7.5 months of Mr Browning's and Mr Papadopoulos' fixed remuneration and excludes one-off payments made in relation to their departures detailed on page 42. 2015 LTI expense includes the expense that would have been recognised for Scott Browning and George Papadopoulos for the 7.5 months until they left the Company in February 2015 without any write-back of this expense.
6. LTI expense shown is the accounting expense recognised in the financial year (except to the extent set out in Notes 2, 4 and 5 above).

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 2015. The JB Hi-Fi closing share price compound annual growth rate between listing and 31 July 2015 is 22.9%, whilst the ASX 200 compound annual growth rate over the same period is 4.7%.



#### Key terms of executive employment agreements

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

Name	Notice Periods/Termination Payment/Non-compete
Richard Murray	12 months' notice (or payment in lieu) 12 months' post termination non-compete and non-solicitation restriction
Cameron Trainor	9 months' notice (or payment in lieu) if terminated by the Company 4 months' notice if terminated by the executive 9 months' post termination non-compete and non-solicitation restriction
Peter Green, Nick Wells, Tim Carter	6 months' notice (or payment in lieu) 6 months' post termination non-compete and non-solicitation restriction

Each executive may be terminated immediately for serious misconduct.

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

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

**EXECUTIVE REMUNERATION PACKAGES – KEY CHANGES FOR FY2016**

The Remuneration Committee and the Board regularly review the Company’s remuneration practices to ensure that they remain fit for purpose, appropriate for the Company’s operating environment, aligned with evolving market trends and shareholder expectations and continue to reward, incentivise and retain key employees. As a result of its recent review, the Company has decided to make a number of changes to the remuneration framework for FY2016.

*Remuneration Packages*

The Company has obtained remuneration recommendations in respect of the FY2016 Executive Remuneration Packages for the CEO, CFO and the Merchandise Director. Packages for the other executives are then set by reference to the packages for these executives.

*Restructure of Executive STIs for FY2016*

The Company will introduce a component of deferred short term incentive. Executives will receive 90% of the FY2016 STI to which they are entitled in cash and the remaining 10% in shares which will be subject to a restriction on sale/disposal for one year after issue. The shares will be forfeited by the executive if the executive’s employment is terminated for cause during the restriction period. The achievement of STI will continue to be subject to group and individual performance targets.

It is the Company’s intention to review the percentage of STI that will be subject to deferral with a view to increasing the deferred component over the next few years.

*Restructure of Executive LTIs for FY2016*

All FY2016 LTI for Executives will be subject to both performance hurdles and a service based vesting condition. Retention based grants were made to executives in FY2015 in the context of the CEO transition and to recognise the lack of vesting under the LTI, notwithstanding strong company performance. With the Company now through the CEO transition period, the Company no longer considers retention based grants to be necessary.

The performance hurdles will require compound annual EPS growth (from FY2015 EPS of 137.9 cps) of between 4% and 8% per annum as follows:

Compound annual EPS growth achieved	Portion of grant vesting
4%	40%
5%	50%
8%	100%

Where compound annual EPS growth is between 4% to 5%, up to 10% will vest on a linear basis.

Where compound annual EPS growth is between 5% to 8%, the remaining 50% will vest on a linear basis.

The Board considers this equity performance linked remuneration structure is effective in aligning the long-term interests of executives and shareholders and, when setting the performance hurdles, the Board considered both consensus forecasts and the earnings outlook for the Group.

As with recent years, the service based vesting condition provides that these options will vest a third each on the third, fourth and fifth anniversary of grant date provided that all other vesting conditions are satisfied.

For FY2016, the LTI award will consist entirely of Zero Exercise Price Options (Zepos). LTI grants previously comprised a combination of traditional options (with an exercise price) and Zepos. Given the fluctuation of the Company’s share price over recent years (which has largely been influenced by external factors beyond the control of the executives), there is a risk that even where performance conditions are met, the exercise price under the traditional options will not exceed the market price and therefore the options hold no value for executives, notwithstanding the delivery of strong company performance. Accordingly, the Company no longer considers traditional options to be an appropriate instrument to give effect to its objectives of rewarding and motivating executives.



## NON-EXECUTIVE DIRECTOR REMUNERATION

### *FY2015 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.

The remuneration packages for non-executive directors for FY2015 and FY2014 are set out below. Following the consideration of benchmarking data and a remuneration recommendation provided by its remuneration consultants, the Board resolved to increase remuneration for its non-executive directors for FY2015 in order to ensure that both the remuneration levels remained competitive and that the Company is able to continue to attract and retain high calibre directors. The increases shown in this table were the first increases since October 2010 with the result that the previous fees were relatively low compared to those paid by comparable companies. Non-executive director remuneration remains within the amount determined by the Company in its Annual General Meeting on 12 October 2011 being \$1,250,000.

<b>Role</b>	<i>Fees 2015 \$</i>	<i>Fees 2014 \$</i>
Chairman	\$270,000	\$240,000
Non-executive director	\$130,000	\$120,000
<i>Additional Committee Fees</i>		
Remuneration Committee Chairman	\$20,000	\$0
Audit and Risk Management Committee Chairman	\$28,000	\$25,000
Audit and Risk Management Committee member	\$14,000	\$10,000
Remuneration Committee member	\$12,000	\$10,000

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

It is the policy of the Company 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.

### *FY2016 Non-Executive Director Remuneration*

Non-executive directors' fees will remain at the current level for the 2016 financial year. The Remuneration Committee will continue to review remuneration for non-executive directors on an annual basis in order to ensure that the objectives set out above in respect of non-executive directors' remuneration are met.

**OTHER INFORMATION**

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

The Company's Securities Trading Policy prohibits directors, executives, senior management and other specified employees from altering the economic benefit or risk derived by them in relation to any unvested equity options that they hold. The Policy also requires directors and executives to obtain prior written approval from the chairman before altering the economic benefit or risk derived by them in relation to any shares or options in JB Hi-Fi held by them. Each year directors and executives are required to sign a declaration that they are in compliance with all elements of the JB Hi-Fi Securities Trading Policy. These declarations have been received in relation to the 2015 financial year from all directors and executives.

**Remuneration Recommendations**

3 Degrees Consulting was engaged by the Chairman of the Remuneration Committee to provide independent governance, legal and remuneration related advice in relation to key management personnel matters. In the 2015 financial year, 3 Degrees Consulting provided remuneration recommendations as defined in the Corporations Act 2001 in relation to the FY2016 remuneration packages for the CEO, CFO and Merchandise Director and was paid \$18,000 (excluding GST) for these services.

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, legal, remuneration and board succession related services and was paid a total of \$140,300 (excluding GST) in the 2015 financial year for these services.

## KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel for FY2015 include the non-executive directors and the seven identified executives. Tim Carter joined the Company as Online & Commercial Director on 8 September 2014 and Scott Browning and George Papadopoulos left the Company on 17 February 2015. All other executives held their roles for the whole of FY2015. The aggregate compensation of the key management personnel of the Group for FY2015 is set out below:

	<b>Consolidated</b>	
	<i>2015</i> \$	<i>2014</i> \$
<b>Short-term employee benefits</b>		
Salary and fees	4,332,490	5,374,486
Bonus	1,406,286	2,849,072
Other	1,172,386	1,463,085
	6,911,162	9,686,643
<b>Post-employment benefits</b>		
Superannuation	265,636	229,611
	265,636	229,611
<b>Share based payments</b>		
Current period expense	1,253,128	978,369
Prior periods expense write-back	(393,573)	(114,959)
	859,555	863,410
	8,036,353	10,779,664

**REMUNERATION REPORT (continued)**

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

	<b>Short-term employee benefits</b>			<b>Post-employment benefits</b>	<b>Share based payments<sup>(i)</sup></b>			<b>Total</b>	
	<i>Salary &amp; fees</i>	<i>Bonus<sup>(ii)</sup></i>	<i>Other<sup>(iii)</sup></i>	<i>Super-annuation</i>	<i>Current period expense<sup>(i)</sup></i>	<i>Prior periods expense write-back<sup>(i)</sup></i>	<i>Total Share based payments</i>		
<b>2015</b>	\$	\$	\$	\$	\$	\$	\$	\$	
<b>Non-executive directors</b>									
G. Richards	269,033	–	–	269,033	20,967	–	–	–	290,000
J. King	142,466	–	–	142,466	13,534	–	–	–	156,000
B. Laughton	144,292	–	–	144,292	13,708	–	–	–	158,000
G. Levin	127,660	–	–	127,660	28,340	–	–	–	156,000
R. Uechtritz	118,721	–	–	118,721	11,279	–	–	–	130,000
	802,172	–	–	802,172	87,828	–	–	–	890,000
<b>Executives</b>									
R. Murray	1,041,813	523,144	28,187	1,593,144	30,000	381,122	–	381,122	2,004,266
S. Browning	390,478	–	614,105	1,004,583	16,058	–	(221,402)	(221,402) <sup>(iv)</sup>	799,239
C. Trainor	754,985	411,856	33,000	1,199,841	35,000	479,860	–	479,860	1,714,701
P. Green	487,752	223,734	20,000	731,486	30,000	257,085	–	257,085	1,018,571
G. Papadopoulos	314,251	–	440,940	755,191	16,058	5,981	(172,171)	(166,190) <sup>(iv)</sup>	605,059
N. Wells	278,539	123,776	20,000	422,315	26,461	98,185	–	98,185	546,961
T. Carter	262,500	123,776	16,154	402,430	24,231	30,895	–	30,895	457,556
	3,530,318	1,406,286	1,172,386	6,108,990	177,808	1,253,128	(393,573)	859,555	7,146,353
	4,332,490	1,406,286	1,172,386	6,911,162	265,636	1,253,128	(393,573)	859,555	8,036,353

- (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 S. Browning, the amount in the "Other" column comprises \$596,000 paid in relation to his departure on 17 February 2015 and in return for an 11 month restraint, and a \$18,105 car allowance. For G. Papadopoulos, the amount in the "Other" column comprises \$424,882 paid in relation to his departure on 17 February 2015 and in return for a 9 month restraint, and a \$16,058 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 all unvested options held by S. Browning and G. Papadopoulos at the time of their departure.

**Performance based**

	Short-term employee benefits				Share based payments			
	Maximum Potential STI		Actual STI		Maximum Potential LTI		Actual LTI <sup>(i)</sup>	
	<i>Bonus</i>		<i>Bonus</i>		<i>Options</i>		<i>Options</i>	
	<i>\$</i>	<i>% of total potential remuneration</i>	<i>\$</i>	<i>% of total actual remuneration</i>	<i>\$</i>	<i>% of total potential remuneration</i>	<i>\$</i>	<i>% of total actual remuneration</i>
<b>2015</b>								
<b>Executives</b>								
R. Murray	825,000	35%	523,144	26%	409,131	18%	381,122	19%
S. Browning <sup>(ii)</sup>	467,772	32%	–	0%	337,015	23%	(221,402)	(28%)
C. Trainor	582,301	30%	411,856	24%	507,702	27%	479,860	28%
P. Green	316,325	28%	223,734	22%	271,333	24%	257,085	25%
G. Papadopoulos <sup>(ii)</sup>	317,208	28%	–	0%	286,830	25%	(166,190)	(27%)
N. Wells	175,000	29%	123,776	23%	98,185	16%	98,185	18%
T. Carter	175,000	30%	123,776	27%	30,895	5%	30,895	7%
	2,858,606	31%	1,406,286	20%	1,941,091	21%	859,555	12%

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

(ii) S. Browning and G. Papadopoulos left the Company on 17 February 2015. The maximum potential STI and LTI disclosed is their full 12 month package.

	Short-term employee benefits				Post-employment benefits	Share based payments <sup>(ii)</sup>			Total
	Salary & fees	Bonus <sup>(i)</sup>	Other <sup>(i)</sup>	Total short-term employee benefits	Super-annuation	Current period expense <sup>(i)</sup>	Prior periods expense write-back <sup>(i)</sup>	Total Share based payments	
<b>2014</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Non-executive directors</b>									
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
<b>Executives</b>									
T. Smart	1,662,859	991,526	1,328,711	3,983,096	25,000	216,328	(114,959)	101,369 <sup>(iv)</sup>	4,109,465
R. Murray	745,828	481,218	28,187	1,255,233	25,000	181,477	–	181,477	1,461,710
S. Browning	588,675	386,570	28,187	1,003,432	25,000	145,781	–	145,781	1,174,213
C. Trainor	741,015	481,218	33,000	1,255,233	25,000	192,922	–	192,922	1,473,155
P. Green	467,145	256,434	20,000	743,579	25,000	105,239	–	105,239	873,818
G. Papadopoulos	463,575	252,106	25,000	740,681	25,000	136,622	–	136,622	902,303
	4,669,097	2,849,072	1,463,085	8,981,254	150,000	978,369	(114,959)	863,410	9,994,664
	5,374,486	2,849,072	1,463,085	9,686,643	229,611	978,369	(114,959)	863,410	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 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.

	Performance based							
	Short-term employee benefits				Share based payments			
	Maximum Potential STI		Actual STI		Maximum Potential LTI		Actual LTI <sup>(i)</sup>	
	<i>Bonus</i>		<i>Bonus</i>		<i>Options</i>		<i>Options</i>	
	<i>% of total potential</i>	<i>% of total actual</i>		<i>% of total potential</i>	<i>% of total actual</i>		<i>% of total actual</i>	
2014	<i>\$ remuneration</i>		<i>\$ remuneration</i>		<i>\$ remuneration</i>		<i>\$ remuneration</i>	
<b>Executives</b>								
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%

(i) 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 2015 financial year bonuses are paid in August 2015 (the 2016 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.

## KEY MANAGEMENT PERSONNEL EQUITY/OPTIONS

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

	<i>Balance at 1 July 2014 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 2015 No.</i>	<i>Balance held nominally No.</i>
<b>2015<sup>(i)(ii)</sup></b>						
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	10,000	–	–	–	10,000	–
R. Murray	102,000	–	–	–	102,000	–
C. Trainor	1,000	–	–	(1,000)	–	–
P. Green	13	–	–	–	13	–
N. Wells	–	–	11,333	(11,333)	–	–
T. Carter	–	–	–	–	–	–
	198,771	–	11,333	(12,333)	197,771	35,258

(i) S. Browning left the Company on 17 February 2015. During the period to 17 February 2015, S. Browning had no transactions with ordinary shares. At the date he left the Company, S. Browning held 41,258 ordinary shares.

(ii) G. Papadopoulos left the Company on 17 February 2015. During the period to 17 February 2015, G. Papadopoulos received 13,818 ordinary shares on exercise of options and disposed of 13,818 ordinary shares. At the date he left the Company, G. Papadopoulos held no ordinary shares.

	<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>
<b>2014</b>						
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

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

	<i>Balance at 1 July 2014 No.</i>	<i>Granted as compensation<sup>(ii)</sup> No.</i>	<i>Exercised No.</i>	<i>Net other change<sup>(iv)</sup> No.</i>	<i>Balance at 30 June 2015 No.</i>	<i>Balance vested at 30 June 2015 No.</i>	<i>Options vested during year No.</i>
<b>2015<sup>(iii)</sup></b>							
R. Murray	311,640	135,142	–	–	446,782	–	–
C. Trainor	410,346	77,248	–	(78,844)	408,750	–	–
P. Green	189,132	44,480	–	–	233,612	–	–
N. Wells	35,116	32,760	(11,333)	–	56,543	–	11,333
T. Carter	–	41,364	–	–	41,364	–	–
	946,234	330,994	(11,333)	(78,844)	1,187,051	–	11,333

- (i) S. Browning left the Company on 17 February 2015. During the period to 17 February 2015, S. Browning was granted 54,978 options and did not exercise any options. At the date of his departure, S. Browning held 305,353 unvested options, all of which lapsed on his departure.
- (ii) G. Papadopoulos left the Company on 17 February 2015. During the period to 17 February 2015, G. Papadopoulos was granted 44,571 options and exercised 5,000 options. At the date of his departure, G. Papadopoulos held 8,818 vested options that he retained and 221,920 unvested options which lapsed on his departure.
- (iii) Excludes any options that may be granted by the Board in August 2015. 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 2015.
- (iv) Options shown as lapsed during the financial year lapsed as they were not exercised prior to expiry.

	<i>Balance at 1 July 2013 No.</i>	<i>Granted as compensation<sup>(ii)</sup> No.</i>	<i>Exercised No.</i>	<i>Net other change<sup>(iv)</sup> No.</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>
<b>2014</b>							
R. Uechtritz <sup>(i)</sup>	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 were granted by the Board in August 2014. The issue of any such options to R. Murray, executive director of the Company, was 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.

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 16,333 options (2014: 312,346) were exercised by key management personnel. The weighted average exercise price for these options was \$14.50 (2014: \$14.01) 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 and exercised during the financial year to the key management personnel:

	<i>Value of options granted – at the grant date<sup>(i)</sup></i>	<i>Value of options exercised – at the exercise date</i>
<b>2015</b>	\$	\$
R. Murray	824,775	–
S. Browning	464,360	–
C. Trainor	729,097	–
P. Green	400,272	–
G. Papadopoulos	400,832	11,291
N. Wells	199,943	65,801
T. Carter	199,952	–
	3,219,231	77,092

(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 and exercised during the year is calculated based on the following:

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

## REMUNERATION REPORT (continued)

### Options granted during the financial year

During the financial year, an aggregate of 430,543 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 <sup>(i)</sup>
102	1/07/2014	58,306	\$0.00	\$17.15	1/07/2016	30/06/2020	n/a
103.1	15/08/2014	58,003	\$17.72	\$3.25	15/08/2017	14/08/2020	5%
103.2	15/08/2014	58,007	\$17.72	\$3.25	15/08/2018	14/08/2020	5%
103.3	15/08/2014	58,008	\$17.72	\$3.25	15/08/2019	14/08/2020	5%
104.1	15/08/2014	24,858	\$17.72	\$3.25	15/08/2017	14/08/2020	5%-10%
104.2	15/08/2014	24,860	\$17.72	\$3.25	15/08/2018	14/08/2020	5%-10%
104.3	15/08/2014	24,861	\$17.72	\$3.25	15/08/2019	14/08/2020	5%-10%
105	15/08/2014	12,797	\$0.00	\$15.42	15/08/2017	14/08/2020	5%
106	15/08/2014	5,483	\$0.00	\$15.42	15/08/2017	14/08/2020	5%-10%
107	15/08/2014	12,798	\$0.00	\$14.72	15/08/2018	14/08/2020	5%
108	15/08/2014	5,484	\$0.00	\$14.72	15/08/2018	14/08/2020	5%-10%
109	15/08/2014	12,801	\$0.00	\$14.06	15/08/2019	14/08/2020	5%
110	15/08/2014	5,486	\$0.00	\$14.06	15/08/2019	14/08/2020	5%-10%
111	15/08/2014	9,141	\$0.00	\$15.42	15/08/2017	14/08/2020	n/a
112	15/08/2014	9,142	\$0.00	\$14.72	15/08/2018	14/08/2020	n/a
113	15/08/2014	9,144	\$0.00	\$14.06	15/08/2019	14/08/2020	n/a
117.1	27/11/2014	7,436	\$15.58	\$2.51	27/11/2017	26/11/2020	5%
117.2	27/11/2014	7,436	\$15.58	\$2.51	27/11/2018	26/11/2020	5%
117.3	27/11/2014	7,437	\$15.58	\$2.51	27/11/2019	26/11/2020	5%
118.1	27/11/2014	3,187	\$15.58	\$2.51	27/11/2017	26/11/2020	5%-10%
118.2	27/11/2014	3,187	\$15.58	\$2.51	27/11/2018	26/11/2020	5%-10%
118.3	27/11/2014	3,187	\$15.58	\$2.51	27/11/2019	26/11/2020	5%-10%
119	27/11/2014	1,476	\$0.00	\$13.31	27/11/2017	26/11/2020	5%
120	27/11/2014	633	\$0.00	\$13.31	27/11/2017	26/11/2020	5%-10%
121	27/11/2014	1,477	\$0.00	\$12.63	27/11/2018	26/11/2020	5%
122	27/11/2014	633	\$0.00	\$12.63	27/11/2018	26/11/2020	5%-10%
123	27/11/2014	1,477	\$0.00	\$11.98	27/11/2019	26/11/2020	5%
124	27/11/2014	633	\$0.00	\$11.98	27/11/2019	26/11/2020	5%-10%
125	27/11/2014	1,055	\$0.00	\$13.31	27/11/2017	26/11/2020	n/a
126	27/11/2014	1,055	\$0.00	\$12.63	27/11/2018	26/11/2020	n/a
127	27/11/2014	1,055	\$0.00	\$11.98	27/11/2019	26/11/2020	n/a
		<u>430,543</u>					

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

In addition to the service based vesting condition and the performance condition outlined above, option series 103.1 to 104.3 and 117.1 to 118.3 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	R. Murray	S. Browning	C. Trainor	P. Green	G. Papadopoulos	N. Wells	T. Carter	Total
102	-	11,661	23,323	11,661	11,661	-	-	58,306
103.1	23,691	7,594	9,453	5,753	5,769	5,743	-	58,003
103.2	23,692	7,594	9,454	5,754	5,770	5,743	-	58,007
103.3	23,692	7,594	9,454	5,754	5,770	5,744	-	58,008
104.1	10,154	3,254	4,051	2,466	2,472	2,461	-	24,858
104.2	10,154	3,254	4,052	2,466	2,473	2,461	-	24,860
104.3	10,154	3,255	4,052	2,466	2,473	2,461	-	24,861
105	5,227	1,675	2,086	1,269	1,273	1,267	-	12,797
106	2,240	718	893	544	545	543	-	5,483
107	5,227	1,676	2,086	1,269	1,273	1,267	-	12,798
108	2,240	718	894	544	545	543	-	5,484
109	5,228	1,676	2,086	1,270	1,273	1,268	-	12,801
110	2,241	718	894	544	546	543	-	5,486
111	3,734	1,197	1,490	906	909	905	-	9,141
112	3,734	1,197	1,490	907	909	905	-	9,142
113	3,734	1,197	1,490	907	910	906	-	9,144
117.1	-	-	-	-	-	-	7,436	7,436
117.2	-	-	-	-	-	-	7,436	7,436
117.3	-	-	-	-	-	-	7,437	7,437
118.1	-	-	-	-	-	-	3,187	3,187
118.2	-	-	-	-	-	-	3,187	3,187
118.3	-	-	-	-	-	-	3,187	3,187
119	-	-	-	-	-	-	1,476	1,476
120	-	-	-	-	-	-	633	633
121	-	-	-	-	-	-	1,477	1,477
122	-	-	-	-	-	-	633	633
123	-	-	-	-	-	-	1,477	1,477
124	-	-	-	-	-	-	633	633
125	-	-	-	-	-	-	1,055	1,055
126	-	-	-	-	-	-	1,055	1,055
127	-	-	-	-	-	-	1,055	1,055
	135,142	54,978	77,248	44,480	44,571	32,760	41,364	430,543

*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
G. Papadopoulos	67.2	5,000	11/02/2015	5,000	\$14.95	\$17.21	n/a <sup>(i)</sup>	n/a
		5,000		5,000				
N. Wells	67.2	8,333	21/08/2014	8,333	\$14.95	\$16.80	n/a <sup>(i)</sup>	n/a
	77	3,000	21/08/2014	3,000	\$0.00	\$16.80	n/a <sup>(i)</sup>	n/a
		11,333		11,333				
		16,333		16,333				

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

No options issued to R. Murray, S. Browning, P. Green, C. Trainor and T. Carter were exercised during the financial year.

*Options lapsed during the financial year*

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

Financial Year Issued	Number of options lapsed			Total
	<i>S. Browning</i> <sup>(i)</sup>	<i>C. Trainor</i>	<i>G. Papadopoulos</i> <sup>(i)</sup>	
2010	–	78,844	–	78,844
2011	33,265	–	8,818	42,083
2012	59,062	–	55,000	114,062
2013	119,317	–	84,667	203,984
2014	38,731	–	28,864	67,595
2015	54,978	–	44,571	99,549
	305,353	78,844	221,920	606,117

(i) S. Browning and G. Papadopoulos options lapsed on their departure from JB Hi-Fi.

No options issued to T. Smart, R. Murray, P. Green, N. Wells and T. Carter lapsed during the financial year.

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

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

## SHARE OPTIONS

### Group share option plans

The Group has share ownership-based remuneration schemes for executives and non-executive management (excluding non-executive directors). In accordance with the provisions of these schemes, executives and non-executive managers within the Group are granted options to purchase parcels of ordinary shares at various exercise prices or to acquire shares at a zero exercise price. 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, 2014 and 2015 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. 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 between 1 July 2012 and 30 June 2015, a zero exercise price;
- for executives only, the majority of options are subject to performance conditions based on EPS growth. To date, options issued have been subject to performance hurdles which require compound annual earnings per share growth of between 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 the 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, 2014 and 2015 financial years generally expire five years after they are issued. Options issued to executives during the 2013, 2014 and 2015 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.

As detailed on page 34, in July 2014 the Company made a one-off issue of share options with a zero exercise price to each of the executives at that time (Cameron Trainor, Scott Browning, Peter Green and George Papadopoulos) other than the new CEO (Richard Murray) and new CFO (Nick Wells). This one-off issue of additional share options with a zero exercise price was aimed at retention of these executives following the CEO transition in July 2014. These options are subject to a service condition only 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) and, accordingly, the options granted to Scott Browning and George Papadopoulos lapsed as result of their departure from the Company on 17 February 2015.

**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 \$
60	68,331	Ordinary	13/08/2010	\$20.30	13/08/2015	\$19.75	45.43%	3.3%	4.74%	\$6.03
61	29,285	Ordinary	13/08/2010	\$20.30	13/08/2015	\$19.75	45.43%	3.3%	4.74%	\$6.03
62	224,992	Ordinary	13/08/2010	\$20.30	13/08/2015	\$19.75	45.43%	3.3%	4.74%	\$6.03
66	32,322	Ordinary	2/06/2011	\$16.75	1/06/2016	\$17.03	43.02%	4.5%	5.05%	\$4.64
67	184,992	Ordinary	12/08/2011	\$15.90	12/08/2016	\$14.95	41.54%	5.1%	3.95%	\$3.60
68	129,423	Ordinary	12/08/2011	\$15.90	12/08/2016	\$14.95	41.54%	5.1%	3.95%	\$3.60
69	55,467	Ordinary	12/08/2011	\$15.90	12/08/2016	\$14.95	41.54%	5.1%	3.95%	\$3.60
72	5,000	Ordinary	27/09/2011	\$15.05	27/09/2016	\$14.73	41.13%	5.2%	3.78%	\$3.47
73	10,000	Ordinary	29/11/2011	\$15.37	29/11/2016	\$15.30	40.10%	5.0%	3.38%	\$3.50
78	102,676	Ordinary	17/08/2012	\$9.75	16/08/2017	\$0.00	30.00%	6.7%	2.99%	\$8.03
79	99,640	Ordinary	17/08/2012	\$9.75	16/08/2017	\$0.00	39.68%	6.7%	2.99%	\$7.53
80	295,217	Ordinary	17/08/2012	\$9.75	16/08/2018	\$9.75	40.37%	6.7%	2.99%	\$2.04
81	126,522	Ordinary	17/08/2012	\$9.75	16/08/2018	\$9.75	40.37%	6.7%	2.99%	\$2.04
82	22,274	Ordinary	17/08/2012	\$9.75	16/08/2018	\$0.00	30.00%	6.7%	2.99%	\$8.03
83	9,546	Ordinary	17/08/2012	\$9.75	16/08/2018	\$0.00	30.00%	6.7%	2.99%	\$8.03
84	12,113	Ordinary	17/08/2012	\$9.75	16/08/2018	\$0.00	39.68%	6.7%	2.99%	\$7.53
85	5,191	Ordinary	17/08/2012	\$9.75	16/08/2018	\$0.00	39.68%	6.7%	2.99%	\$7.53
86	12,114	Ordinary	17/08/2012	\$9.75	16/08/2018	\$0.00	41.19%	6.7%	2.99%	\$7.06
87	5,191	Ordinary	17/08/2012	\$9.75	16/08/2018	\$0.00	41.19%	6.7%	2.99%	\$7.06
89	3,000	Ordinary	6/11/2012	\$9.99	5/11/2017	\$0.00	29.30%	6.4%	2.78%	\$8.39
90	3,000	Ordinary	6/11/2012	\$9.99	5/11/2017	\$0.00	37.10%	6.4%	2.78%	\$7.88
91	61,518	Ordinary	16/08/2013	\$18.66	15/08/2018	\$0.00	34.69%	3.8%	3.25%	\$17.57
92	60,036	Ordinary	16/08/2013	\$18.66	15/08/2018	\$0.00	32.08%	3.8%	3.25%	\$16.92
93	60,050	Ordinary	16/08/2013	\$18.66	15/08/2018	\$0.00	30.88%	3.8%	3.25%	\$16.30
94	69,832	Ordinary	16/08/2013	\$18.66	15/08/2019	\$18.93	32.55%	3.8%	3.25%	\$4.16
95	29,928	Ordinary	16/08/2013	\$18.66	15/08/2019	\$18.93	32.55%	3.8%	3.25%	\$4.16
96	6,654	Ordinary	16/08/2013	\$18.66	15/08/2019	\$0.00	32.08%	3.8%	3.25%	\$16.92
97	2,852	Ordinary	16/08/2013	\$18.66	15/08/2019	\$0.00	32.08%	3.8%	3.25%	\$16.92
98	6,654	Ordinary	16/08/2013	\$18.66	15/08/2019	\$0.00	30.88%	3.8%	3.25%	\$16.30
99	2,852	Ordinary	16/08/2013	\$18.66	15/08/2019	\$0.00	30.88%	3.8%	3.25%	\$16.30
100	6,653	Ordinary	16/08/2013	\$18.66	15/08/2019	\$0.00	38.50%	3.8%	3.25%	\$15.70
101	2,851	Ordinary	16/08/2013	\$18.66	15/08/2019	\$0.00	38.50%	3.8%	3.25%	\$15.70
102	34,984	Ordinary	1/07/2014	\$18.44	30/06/2020	\$0.00	31.61%	4.2%	2.99%	\$17.15
103	133,927	Ordinary	15/08/2014	\$17.66	14/08/2020	\$17.72	30.74%	4.7%	2.90%	\$3.25
104	57,398	Ordinary	15/08/2014	\$17.66	14/08/2020	\$17.72	30.74%	4.7%	2.90%	\$3.25
105	9,849	Ordinary	15/08/2014	\$17.66	14/08/2020	\$0.00	33.18%	4.7%	2.90%	\$15.42
106	4,220	Ordinary	15/08/2014	\$17.66	14/08/2020	\$0.00	33.18%	4.7%	2.90%	\$15.42
107	9,849	Ordinary	15/08/2014	\$17.66	14/08/2020	\$0.00	31.56%	4.7%	2.90%	\$14.72
108	4,221	Ordinary	15/08/2014	\$17.66	14/08/2020	\$0.00	31.56%	4.7%	2.90%	\$14.72
109	9,852	Ordinary	15/08/2014	\$17.66	14/08/2020	\$0.00	30.71%	4.7%	2.90%	\$14.06
110	4,222	Ordinary	15/08/2014	\$17.66	14/08/2020	\$0.00	30.71%	4.7%	2.90%	\$14.06
111	7,035	Ordinary	15/08/2014	\$17.66	14/08/2020	\$0.00	33.18%	4.7%	2.90%	\$15.42

## 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 \$
112	7,036	Ordinary	15/08/2014	\$17.66	14/08/2020	\$0.00	31.56%	4.7%	2.90%	\$14.72
113	7,037	Ordinary	15/08/2014	\$17.66	14/08/2020	\$0.00	30.71%	4.7%	2.90%	\$14.06
114	63,398	Ordinary	15/08/2014	\$17.66	14/08/2019	\$0.00	31.64%	4.7%	2.90%	\$16.15
115	63,426	Ordinary	15/08/2014	\$17.66	14/08/2019	\$0.00	33.18%	4.7%	2.90%	\$15.42
116	63,436	Ordinary	15/08/2014	\$17.66	14/08/2019	\$0.00	31.56%	4.7%	2.90%	\$14.72
117	22,309	Ordinary	27/11/2014	\$15.56	26/11/2020	\$15.58	30.94%	5.4%	2.63%	\$2.51
118	9,561	Ordinary	27/11/2014	\$15.56	26/11/2020	\$15.58	30.94%	5.4%	2.63%	\$2.51
119	1,476	Ordinary	27/11/2014	\$15.56	26/11/2020	\$0.00	32.51%	5.4%	2.63%	\$13.31
120	633	Ordinary	27/11/2014	\$15.56	26/11/2020	\$0.00	32.51%	5.4%	2.63%	\$13.31
121	1,477	Ordinary	27/11/2014	\$15.56	26/11/2020	\$0.00	31.91%	5.4%	2.63%	\$12.63
122	633	Ordinary	27/11/2014	\$15.56	26/11/2020	\$0.00	31.91%	5.4%	2.63%	\$12.63
123	1,477	Ordinary	27/11/2014	\$15.56	26/11/2020	\$0.00	30.31%	5.4%	2.63%	\$11.98
124	633	Ordinary	27/11/2014	\$15.56	26/11/2020	\$0.00	30.31%	5.4%	2.63%	\$11.98
125	1,055	Ordinary	27/11/2014	\$15.56	26/11/2020	\$0.00	32.51%	5.4%	2.63%	\$13.31
126	1,055	Ordinary	27/11/2014	\$15.56	26/11/2020	\$0.00	31.91%	5.4%	2.63%	\$12.63
127	1,055	Ordinary	27/11/2014	\$15.56	26/11/2020	\$0.00	30.31%	5.4%	2.63%	\$11.98
<u>2,267,430</u>										

As at 10 August 2015, 142,427 options are vested and exercisable. In addition up to 554,588 additional options will vest and become exercisable in August 2015, subject to the satisfaction of the relevant service, performance and share price vesting conditions.

The weighted average fair value of the share options granted during the financial year is \$10.09 (2014: \$10.91). 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.

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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.

2015

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 \$
65	1/12/2010	14/05/2015	8,818	8,818	Ordinary	\$18.75	–	\$21.06
66	2/06/2011	11/02/2015	10,774	10,774	Ordinary	\$17.03	–	\$17.21
67	12/08/2011	13/08/2014	2,834	2,834	Ordinary	\$14.95	–	\$17.63
67	12/08/2011	19/08/2014	52,164	52,164	Ordinary	\$14.95	–	\$17.07
67	12/08/2011	20/08/2014	61,163	61,163	Ordinary	\$14.95	–	\$16.72
67	12/08/2011	21/08/2014	16,832	16,832	Ordinary	\$14.95	–	\$16.80
67	12/08/2011	22/08/2014	10,666	10,666	Ordinary	\$14.95	–	\$17.07
67	12/08/2011	28/08/2014	2,833	2,833	Ordinary	\$14.95	–	\$16.89
67	12/08/2011	11/02/2015	5,000	5,000	Ordinary	\$14.95	–	\$17.21
67	12/08/2011	20/02/2015	5,000	5,000	Ordinary	\$14.95	–	\$17.23
73	29/11/2011	11/02/2015	10,000	10,000	Ordinary	\$15.30	–	\$17.21
76	31/07/2012	19/08/2014	32,520	32,520	Ordinary	\$8.74	–	\$17.07
76	31/07/2012	15/07/2015	32,520	32,520	Ordinary	\$8.74	–	\$20.03
77	17/08/2012	19/08/2014	47,510	47,510	Ordinary	\$0.00	–	\$17.07
77	17/08/2012	20/08/2014	34,505	34,505	Ordinary	\$0.00	–	\$16.72
77	17/08/2012	21/08/2014	11,335	11,335	Ordinary	\$0.00	–	\$16.80
77	17/08/2012	22/08/2014	17,335	17,335	Ordinary	\$0.00	–	\$17.07
77	17/08/2012	28/08/2014	1,667	1,667	Ordinary	\$0.00	–	\$16.89
78	17/08/2012	15/07/2015	3,000	3,000	Ordinary	\$0.00	–	\$20.03
88	6/11/2012	7/11/2014	3,000	3,000	Ordinary	\$0.00	–	\$16.17
91	16/08/2013	15/07/2015	1,483	1,483	Ordinary	\$0.00	–	\$20.03
			<u>370,959</u>	<u>370,959</u>				



## 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	22/08/2013	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
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

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	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				

## 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:

<i>Option Series</i>	<i>Grant Date</i>	<i>Performance Hurdle<sup>®</sup></i>	<i>Date for testing</i>	<i>Relevant Financial Year</i>	<i>Exercise Price \$</i>	<i>Expiry Date</i>
<b>Vested</b>						
Nil						
<b>Not vested (performance hurdle achieved but time based service condition not achieved)</b>						
80	17/08/2012	5%	17/08/2015	2015	\$9.75	16/08/2018
82	17/08/2012	5%	17/08/2015	2015	\$0.00	16/08/2018
<b>Not vested (performance hurdle partially achieved but time based service condition not achieved)</b>						
81	17/08/2012	5%-10%	17/08/2015	2015	\$9.75	16/08/2018
83	17/08/2012	5%-10%	17/08/2015	2015	\$0.00	16/08/2018
<b>Not vested (time based service condition achieved but performance hurdle not achieved)</b>						
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
60	13/08/2010	10%	13/08/2014	2014	\$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
61	13/08/2010	15%	13/08/2014	2014	\$19.75	13/08/2015
68	12/08/2011	10%	12/08/2013	2013	\$14.95	12/08/2016
68	12/08/2011	10%	12/08/2014	2014	\$14.95	12/08/2016
69	12/08/2011	15%	12/08/2013	2013	\$14.95	12/08/2016
69	12/08/2011	15%	12/08/2014	2014	\$14.95	12/08/2016
<b>Not vested (time based service condition and performance hurdle not achieved)</b>						
68	12/08/2011	5%-10%	12/08/2015	2015	\$14.95	12/08/2016
69	12/08/2011	15%	12/08/2015	2015	\$14.95	12/08/2016
80	17/08/2012	5%	17/08/2016	2016	\$9.75	16/08/2018
80	17/08/2012	5%	17/08/2017	2017	\$9.75	16/08/2018
81	17/08/2012	5%-10%	17/08/2016	2016	\$9.75	16/08/2018
81	17/08/2012	5%-10%	17/08/2017	2017	\$9.75	16/08/2018
84	17/08/2012	5%	17/08/2016	2016	\$0.00	16/08/2018
85	17/08/2012	5%-10%	17/08/2016	2016	\$0.00	16/08/2018
86	17/08/2012	5%	17/08/2017	2017	\$0.00	16/08/2018
87	17/08/2012	5%-10%	17/08/2017	2017	\$0.00	16/08/2018
94	16/08/2013	5%	16/08/2016	2016	\$18.93	15/08/2019
94	16/08/2013	5%	16/08/2017	2017	\$18.93	15/08/2019
94	16/08/2013	5%	16/08/2018	2018	\$18.93	15/08/2019
95	16/08/2013	5%-10%	16/08/2016	2016	\$18.93	15/08/2019
95	16/08/2013	5%-10%	16/08/2017	2017	\$18.93	15/08/2019
95	16/08/2013	5%-10%	16/08/2018	2018	\$18.93	15/08/2019
96	16/08/2013	5%	16/08/2016	2016	\$0.00	15/08/2019
97	16/08/2013	5%-10%	16/08/2016	2016	\$0.00	15/08/2019
98	16/08/2013	5%	16/08/2017	2017	\$0.00	15/08/2019
99	16/08/2013	5%-10%	16/08/2017	2017	\$0.00	15/08/2019
100	16/08/2013	5%	16/08/2018	2018	\$0.00	15/08/2019

**Long-term incentives subject to performance conditions (continued)**

<i>Option Series</i>	<i>Grant Date</i>	<i>Performance Hurdle<sup>(i)</sup></i>	<i>Date for testing</i>	<i>Relevant Financial Year</i>	<i>Exercise Price \$</i>	<i>Expiry Date</i>
<b>Not vested (time based service condition and performance hurdle not achieved) continued</b>						
101	16/08/2013	5%-10%	16/08/2018	2018	\$0.00	15/08/2019
103	15/08/2014	5%	15/08/2017	2017	\$17.72	14/08/2020
103	15/08/2014	5%	15/08/2018	2018	\$17.72	14/08/2020
103	15/08/2014	5%	15/08/2019	2019	\$17.72	14/08/2020
104	15/08/2014	5%-10%	15/08/2017	2017	\$17.72	14/08/2020
104	15/08/2014	5%-10%	15/08/2018	2018	\$17.72	14/08/2020
104	15/08/2014	5%-10%	15/08/2019	2019	\$17.72	14/08/2020
105	15/08/2014	5%	15/08/2017	2017	\$0.00	14/08/2020
106	15/08/2014	5%-10%	15/08/2017	2017	\$0.00	14/08/2020
107	15/08/2014	5%	15/08/2018	2018	\$0.00	14/08/2020
108	15/08/2014	5%-10%	15/08/2018	2018	\$0.00	14/08/2020
109	15/08/2014	5%	15/08/2019	2019	\$0.00	14/08/2020
110	15/08/2014	5%-10%	15/08/2019	2019	\$0.00	14/08/2020
117	27/11/2014	5%	27/11/2017	2017	\$15.58	26/11/2020
117	27/11/2014	5%	27/11/2018	2018	\$15.58	26/11/2020
117	27/11/2014	5%	27/11/2019	2019	\$15.58	26/11/2020
118	27/11/2014	5%-10%	27/11/2017	2017	\$15.58	26/11/2020
118	27/11/2014	5%-10%	27/11/2018	2018	\$15.58	26/11/2020
118	27/11/2014	5%-10%	27/11/2019	2019	\$15.58	26/11/2020
119	27/11/2014	5%	27/11/2017	2017	\$0.00	26/11/2020
120	27/11/2014	5%-10%	27/11/2017	2017	\$0.00	26/11/2020
121	27/11/2014	5%	27/11/2018	2018	\$0.00	26/11/2020
122	27/11/2014	5%-10%	27/11/2018	2018	\$0.00	26/11/2020
123	27/11/2014	5%	27/11/2019	2019	\$0.00	26/11/2020
124	27/11/2014	5%-10%	27/11/2019	2019	\$0.00	26/11/2020

(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.



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

10 August 2015

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 2015, 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 2015, 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 62 to 102.

#### *Directors' Responsibility for the Financial Report*

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

#### *Auditor's Responsibility*

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

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

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

#### *Auditor's Independence Declaration*

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

Liability limited by a scheme approved under Professional Standards Legislation.  
Member of Deloitte Touche Tohmatsu Limited.

*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 2015 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 58 of the directors' report for the year ended 30 June 2015. 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 2015, complies with section 300A of the *Corporations Act 2001*.

  
DELOITTE TOUCHE TOHMATSU



Andrew Reid  
Partner  
Chartered Accountants

Melbourne  
10 August 2015

## DIRECTORS' DECLARATION

### 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 27 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

10 August 2015



**Richard Murray**

Chief Executive Officer



**STATEMENT OF PROFIT OR LOSS**  
for the financial year ended 30 June 2015

	Notes	Consolidated	
		2015 \$'000	2014 \$'000
Revenue	3	3,652,136	3,483,775
Cost of sales		(2,853,883)	(2,727,794)
<b>Gross profit</b>		798,253	755,981
Other income		631	520
Sales and marketing expenses		(374,084)	(355,694)
Occupancy expenses		(160,216)	(148,969)
Administration expenses		(27,711)	(27,600)
Other expenses		(35,414)	(32,716)
Finance costs	4	(5,927)	(8,845)
Profit before tax		195,532	182,677
Income tax expense	5	(59,021)	(54,230)
<b>Profit for the year</b>		136,511	128,447
Attributable to:			
Owners of the Company		136,511	128,359
Non-controlling interests		–	88
		136,511	128,447
		<i>Cents</i>	<i>Cents</i>
<b>Earnings per share</b>			
Basic (cents per share)	23	137.91	128.39
Diluted (cents per share)	23	136.46	126.89

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

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
for the financial year ended 30 June 2015

	<b>Consolidated</b>	
	<i>2015</i> \$'000	<i>2014</i> \$'000
<b>Profit for the year</b>	136,511	128,447
<b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Changes in the fair value of cash flow hedges (net of tax)	1	576
Exchange differences on translation of foreign operations	(2,509)	4,728
<b>Other comprehensive income for the year (net of tax)</b>	(2,508)	5,304
<b>Total comprehensive income for the year</b>	134,003	133,751
Total comprehensive income is attributable to:		
Owners of the Company	134,003	133,663
Non-controlling interests	–	88
	134,003	133,751

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

**BALANCE SHEET**  
as at 30 June 2015

		<b>Consolidated</b>	
		2015	2014
		\$'000	\$'000
		Notes	
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		49,131	43,445
Trade and other receivables	9	81,480	70,745
Inventories	10	478,871	458,625
Other current assets	11	7,416	5,332
Total current assets		616,898	578,147
<b>Non-current assets</b>			
Plant and equipment	12	176,208	181,564
Deferred tax assets	13	17,363	14,909
Intangible assets	14	84,541	85,218
Other financial assets		3	3
Total non-current assets		278,115	281,694
<b>Total assets</b>		<b>895,013</b>	<b>859,841</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	15	325,604	302,979
Provisions	16	40,585	36,840
Other current liabilities	17	4,566	4,111
Current tax liabilities		9,474	8,184
Other financial liabilities		107	79
Total current liabilities		380,336	352,193
<b>Non-current liabilities</b>			
Borrowings	18	139,461	179,653
Provisions	19	6,073	8,699
Other non-current liabilities	20	25,664	24,638
Other financial liabilities		-	25
Total non-current liabilities		171,198	213,015
<b>Total liabilities</b>		<b>551,534</b>	<b>565,208</b>
<b>Net assets</b>		<b>343,479</b>	<b>294,633</b>
<b>EQUITY</b>			
Contributed equity	21	56,521	58,383
Reserves	22	17,636	16,265
Retained earnings		269,322	219,985
<b>Total equity</b>		<b>343,479</b>	<b>294,633</b>

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

**STATEMENT OF CHANGES IN EQUITY**  
for the financial year ended 30 June 2015

**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
<b>Consolidated</b>											
<b>Balance at 1 July 2013</b>		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)		-	-	-	576	-	-	-	576	-	576
Exchange difference on translation of foreign operations		-	-	4,728	-	-	-	-	4,728	-	4,728
<b>Total comprehensive income for the year</b>		-	-	4,728	576	-	-	128,359	133,663	88	133,751
Issue of shares under share option plans	21	21,523	-	-	-	-	-	-	21,523	-	21,523
Share buy-back	21	(25,830)	-	-	-	-	-	-	(25,830)	-	(25,830)
Share issue and buy-back costs (net of tax)	21	(84)	-	-	-	-	-	-	(84)	-	(84)
Dividends provided for or paid	24	-	-	-	-	-	-	(77,183)	(77,183)	-	(77,183)
Acquisition of non-controlling interests		-	-	-	-	-	(4,829)	-	(4,829)	(571)	(5,400)
Share-based payments - expense		-	3,592	-	-	-	-	-	3,592	-	3,592
Share-based payments - income tax		-	436	-	-	-	-	-	436	-	436
<b>Balance at 30 June 2014</b>		58,383	17,950	3,590	(71)	850	(6,054)	219,985	294,633	-	294,633
<b>Balance at 1 July 2014</b>		58,383	17,950	3,590	(71)	850	(6,054)	219,985	294,633	-	294,633
Profit for the year		-	-	-	-	-	-	136,511	136,511	-	136,511
Cash flow hedges (net of tax)		-	-	-	1	-	-	-	1	-	1
Exchange difference on translation of foreign operations		-	-	(2,509)	-	-	-	-	(2,509)	-	(2,509)
<b>Total comprehensive income for the year</b>		-	-	(2,509)	1	-	-	136,511	134,003	-	134,003
Issue of shares under share option plans	21	3,125	-	-	-	-	-	-	3,125	-	3,125
Share buy-back	21	(4,970)	-	-	-	-	-	-	(4,970)	-	(4,970)
Share issue and buy-back costs (net of tax)	21	(17)	-	-	-	-	-	-	(17)	-	(17)
Dividends provided for or paid	24	-	-	-	-	-	-	(87,174)	(87,174)	-	(87,174)
Share-based payments - expense		-	3,508	-	-	-	-	-	3,508	-	3,508
Share-based payments - income tax		-	371	-	-	-	-	-	371	-	371
<b>Balance at 30 June 2015</b>		56,521	21,829	1,081	(70)	850	(6,054)	269,322	343,479	-	343,479

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 2015

		<b>Consolidated</b>	
<i>Notes</i>		<i>2015</i>	<i>2014</i>
		\$'000	\$'000
<b>Cash flows from operating activities</b>			
		4,012,130	3,832,979
		(3,767,211)	(3,723,982)
		552	402
		(5,689)	(7,496)
		(59,886)	(60,577)
	32	179,896	41,326
<b>Cash flows from investing activities</b>			
		(2,400)	(3,000)
	12	(42,466)	(35,914)
		496	674
		(44,370)	(38,240)
<b>Cash flows from financing activities</b>			
	21	3,125	21,523
		(40,113)	54,063
		(484)	(64)
	21	(4,970)	(25,830)
		(24)	(118)
	24	(87,174)	(77,183)
		(129,640)	(27,609)
<b>Net increase / (decrease) in cash and cash equivalents</b>		5,886	(24,523)
Cash and cash equivalents at the beginning of the financial year		43,445	67,368
Effects of exchange rate changes on cash and cash equivalents		(200)	600
<b>Cash and cash equivalents at end of year</b>		49,131	43,445

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

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2015

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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, except for financial assets and liabilities (including derivative instruments), and certain classes of plant and equipment measured at fair value.

#### (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 10 August 2015.

### (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 2015 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 structured 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)*

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).

**(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) 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.

**(g) 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.

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.



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

### **(h) 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 33. Movements in the hedging reserve in shareholder's equity are shown in the Statement of changes in equity.

#### *(i) Cash flow hedge*

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

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

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.

### **(i) 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.

### **(j) Employee benefits**

Liabilities for wages and salaries, including non-monetary benefits, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(j) Employee benefits (continued)**

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 the Australian corporate bond discount rate curve as published by Milliman with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

**(k) Foreign currency translation***(i) Functional and presentation currency*

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

*(ii) Transactions and balances*

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

*(iii) Group companies*

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

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

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

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

**(l) 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.

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

### **(m) 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.

### **(n) Income tax**

#### *Current tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

#### *Deferred tax*

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, 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, 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).

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(n) Income tax (continued)***Tax consolidation (continued)*

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 5.

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.

**(o) 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 associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ('CGUs'), or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU (or groups of CGUs) is less than the carrying amount of the CGU (or groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to the other assets in the CGU (or groups of CGUs) pro rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

*(ii) Other intangible assets*

The following other intangibles assets are recognised by the Group:

- Brand names and trademarks
- Rights to profit share
- Location premiums

The Group gave due consideration to the technical and commercial life of the above listed intangibles assets to determine their useful life and have assessed them to have an indefinite life and therefore they 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(m).

**(p) Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of inventories are determined after deducting rebates and discounts. Net realisable value represents the estimated selling price less all estimated costs necessary to make the sale.

**(q) 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.

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

### **(r) 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*

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 25). 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.

#### *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.

### **(s) 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

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognised in the profit or loss.

### **(t) 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.

### **(u) Revenue recognition**

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

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

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

**(u) Revenue recognition (continued)**

Revenue is recognised for the major business activities as follows:

*(i) Sale of goods*

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

*(ii) 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.

**(v) 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.

**(w) Share-based payments**

Equity settled share based payments with employees 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.

**(x) 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)

### (y) 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.

### (z) 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 1031 *Materiality*, and AASB 2014-1 *Amendments to Australian Accounting Standards (Part C - Materiality)*
- (ii) AASB 2012-3 *Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities (Amendments to AASB 132)*
- (iii) AASB 2013-3 *Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets*
- (iv) AASB 2013-4 *Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting*
- (v) AASB 2013-9 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments (Part B)*
- (vi) AASB 2014-1 *Amendments to Australian Accounting Standards (Part A - Annual Improvements 2010-2012 and 2011-13 Cycles)*

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

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 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, AASB 2012-6 *Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures*, AASB 2013-9 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments (Part C - Financial Instruments)*, AASB 2014-1 *Amendments to Australian Standards*, AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*, and AASB 2014-8 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) (effective 1 January 2018)*
- (ii) AASB 15 *Revenue from Contracts with Customers*, and AASB 2014-15 *Amendments to Australian Accounting Standards arising from AASB 15 (effective 1 January 2017)*
- (iii) AASB 2014-4 *Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation (effective 1 January 2016)*
- (iv) AASB 2015-1 *Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle (effective 1 January 2016)*
- (v) AASB 2015-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101 (effective 1 January 2016)*
- (vi) AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality (effective 1 July 2015)*

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 Company 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(o). 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 14 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(w). 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.



		<b>Consolidated</b>	
		<i>2015</i> \$'000	<i>2014</i> \$'000
<b>3</b>	<b>REVENUE</b>		
	Sale of goods and services	3,652,136	3,483,775
<b>4</b>	<b>EXPENSES</b>		
	<b>Profit before income tax includes the following specific expenses:</b>		
	<i>Depreciation</i>		
	Depreciation - Plant and equipment	22,987	21,869
	Depreciation - Leasehold improvements	16,137	13,661
		39,124	35,530
	<i>Impairment</i>		
	Impairment - Plant and equipment	1,119	-
	Total depreciation and impairment	40,243	35,530
	<i>Finance costs</i>		
	Interest on loans	5,446	7,537
	Fair value loss on interest swaps designated as cash flow hedges - transfer from equity	111	937
	Other interest expense	370	371
		5,927	8,845
	<i>Rental expense relating to operating leases</i>		
	Minimum lease payments	94,672	87,114
	<i>Employee benefits expenses</i>		
	Defined contribution superannuation expense	27,910	25,793
	Share-based payments - expense	3,508	3,592
	Other employee benefits	337,923	322,030
		369,341	351,415

	Consolidated	
	2015 \$'000	2014 \$'000
<b>5 INCOME TAX EXPENSE</b>		
<b>(a) Income tax expense</b>		
Current tax	56,567	54,196
Deferred tax	2,454	34
	59,021	54,230
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit from continuing operations before income tax expense	195,532	182,677
Tax at the Australian tax rate of 30.0% (2014: 30.0%)	58,660	54,803
Effect of expenses that are not deductible in determining taxable profit	1,069	1,325
Effect of different tax rates of subsidiaries operating in other jurisdictions	(33)	(56)
Effect of other deductibles in determining taxable profit	(433)	(1,596)
Other	(242)	(246)
	59,021	54,230
<b>(c) Amounts recognised directly in equity</b>		
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	(371)	(436)
<i>Deferred tax</i>		
Tax effect of hedge gains/(loss) in reserves	–	245
Tax effect of share issue and buy-back costs charged to issued capital	(7)	(35)
	(378)	(226)

**(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 26.

*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.

## 5 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 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	
	2015 \$	2014 \$
<b>6 KEY MANAGEMENT PERSONNEL DISCLOSURES</b>		
The aggregate compensation of the key management personnel of the Group is set out below:		
Short-term employee benefits	6,911,162	9,686,643
Post-employment benefits	265,636	229,611
Share-based payments expense	859,555	863,410
	<b>8,036,353</b>	<b>10,779,664</b>

Detailed remuneration disclosures are provided in the remuneration report on pages 28 to 58.

## 7 SHARE-BASED PAYMENTS

### (a) Group share option plans

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

- options issued to non-executive managers - a third each on the second, third and fourth anniversary of issue;
- options issued to executives prior to 1 July 2012 - a third each on the second, third and fourth anniversary of issue;
- options issued to executives from 1 July 2012 - a third each on the third, fourth and fifth anniversary of issue; and
- options issued to executives on 1 July 2014 - on the second 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 2015 having an EPS growth performance hurdle of between 5% and 10%, or no performance hurdles.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2015

### 7 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
<b>2015</b>					
Outstanding Share Options with an exercise price	2,099,952	280,467	(785,872)	1,594,547	132,944
Outstanding Zero Exercise Price Options	693,263	360,296	(244,488)	809,071	–
	2,793,215	640,763	(1,030,360)	2,403,618	132,944
Weighted average exercise price of those with an exercise price	\$14.72	\$17.48	\$15.03	\$15.05	\$18.48
<b>2014</b>					
Outstanding Share Options with an exercise price	4,320,367	236,383	(2,456,798)	2,099,952	134,163
Outstanding Zero Exercise Price Options	497,218	271,592	(75,547)	693,263	–
	4,817,585	507,975	(2,532,345)	2,793,215	134,163
Weighted average exercise price of those with an exercise price	\$14.57	\$18.93	\$14.86	\$14.72	\$18.98

The weighted average remaining contractual life of share options outstanding at the end of the period was 954 days (2014: 1,050 days).

#### Fair value of options granted

The weighted average fair value of options granted during the year ended 30 June 2015 was \$10.09 (2014: \$10.91). 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 2015 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 58.

	Consolidated	
	2015 \$	2014 \$
<b>8 REMUNERATION OF AUDITORS</b>		
<i>Audit and other services</i>		
Audit and review of group financial statements	323,500	314,000
Audit and review of subsidiary financial statements	29,000	28,250
IT services <sup>(i)</sup>	511,507	–
Total remuneration for audit and other services	864,007	342,250

(i) During the year ended 30 June 2015, Deloitte was engaged by the Group to assist with the implementation of a Customer Relationship Management tool for its Commercial business.

The auditor of the Group is Deloitte Touche Tohmatsu.

	Consolidated	
	2015 \$'000	2014 \$'000
<b>9 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	28,113	24,071
Allowance for doubtful debts	(431)	(449)
	27,682	23,622
Non-trade receivables	53,798	47,123
	81,480	70,745

**(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	
	2015 \$'000	2014 \$'000
<b>(b) Ageing of trade receivables</b>		
Not past due	25,511	21,407
Past due but not impaired:		
0 - 30 days	1,830	1,541
31 - 60 days	341	660
61 - 90 days	-	14
91+ days	-	-
	27,682	23,622
<b>(c) Movements in allowance for doubtful debts</b>		
Balance at the beginning of the year	449	331
Provision for impairment recognised during the year	111	120
Receivables written off during the year as uncollectable	(129)	(2)
	431	449
<b>(d) Ageing of impaired trade receivables</b>		
0 - 31 days	-	-
31 - 60 days	-	8
61 - 90 days	260	239
91+ days	171	202
	431	449

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 2015

		<b>Consolidated</b>	
		2015 \$'000	2014 \$'000
<b>10</b>	<b>CURRENT ASSETS - INVENTORIES</b>		
	Finished goods	478,871	458,625
<b>11</b>	<b>CURRENT ASSETS - OTHER CURRENT ASSETS</b>		
	Prepayments	3,943	3,712
	Deposits	3,473	1,620
		7,416	5,332

		<i>Plant and equipment \$'000</i>	<i>Leasehold improvements \$'000</i>	<i>Total \$'000</i>
<b>12</b>	<b>NON-CURRENT ASSETS - PLANT AND EQUIPMENT</b>			
	<b>At 1 July 2013</b>			
	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
	<b>Year ended 30 June 2014</b>			
	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
	<b>At 30 June 2014</b>			
	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
	<b>Year ended 30 June 2015</b>			
	Opening net book amount	117,950	63,614	181,564
	Exchange differences	(394)	(218)	(612)
	Additions	25,899	16,567	42,466
	Disposals	(4,530)	(2,437)	(6,967)
	Depreciation charge	(22,987)	(16,137)	(39,124)
	Impairment charge	(1,119)	-	(1,119)
	Closing net book amount	114,819	61,389	176,208
	<b>At 30 June 2015</b>			
	Cost	240,819	143,691	384,510
	Accumulated depreciation and impairment	(126,000)	(82,302)	(208,302)
	Net book amount	114,819	61,389	176,208

		<b>Consolidated</b>	
		2015 \$'000	2014 \$'000
<b>13 NON-CURRENT ASSETS - DEFERRED TAX ASSETS</b>			
<b>The balance comprises temporary differences attributable to:</b>			
<b>Deferred tax assets</b>			
Tax losses		1,002	1,597
Provisions		21,359	20,529
Trade and other receivables		127	132
Inventories		2,841	2,592
Trade and other payables		804	810
Cash flow hedges		31	32
		<b>26,164</b>	<b>25,692</b>
<b>Deferred tax liabilities</b>			
Trade and other receivables		(1,493)	(1,899)
Plant and equipment		(7,308)	(8,884)
		<b>(8,801)</b>	<b>(10,783)</b>
Net deferred tax assets		<b>17,363</b>	<b>14,909</b>

<b>Movements - Consolidated</b>	<i>Tax Losses</i> \$'000	<i>Provisions</i> \$'000	<i>Trade and other receivables</i> \$'000	<i>Inventories</i> \$'000	<i>Trade and other payables</i> \$'000	<i>Plant and equipment</i> \$'000	<i>Cash flow hedges</i> \$'000	<i>Total</i> \$'000
<b>At 1 July 2013</b>	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
<b>At 30 June 2014</b>	1,597	20,529	(1,767)	2,592	810	(8,884)	32	14,909
<b>At 1 July 2014</b>	1,597	20,529	(1,767)	2,592	810	(8,884)	32	14,909
Charged to income	(595)	830	401	249	(6)	1,576	(1)	2,454
Charged to equity	-	-	-	-	-	-	-	-
<b>At 30 June 2015</b>	1,002	21,359	(1,366)	2,841	804	(7,308)	31	17,363

	<i>Goodwill</i> \$'000	<i>Brandnames</i> \$'000	<i>Location premiums</i> \$'000	<i>Rights to profit share</i> \$'000	<i>Total</i> \$'000
<b>14 NON-CURRENT ASSETS - INTANGIBLE ASSETS</b>					
<b>Year ended 30 June 2014</b>					
Opening net book amount	34,688	43,094	2,388	3,542	83,712
Adjustment on finalisation of fair value of identifiable net assets	165	-	-	-	165
Exchange differences	1,341	-	-	-	1,341
Closing net book amount	<b>36,194</b>	<b>43,094</b>	<b>2,388</b>	<b>3,542</b>	<b>85,218</b>
<b>Year ended 30 June 2015</b>					
Opening net book amount	36,194	43,094	2,388	3,542	85,218
Exchange differences	(677)	-	-	-	(677)
Closing net book amount	<b>35,517</b>	<b>43,094</b>	<b>2,388</b>	<b>3,542</b>	<b>84,541</b>

**14 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	
	2015 \$'000	2014 \$'000
JB Hi-Fi Australia	13,724	13,724
Impact Records (store acquisition)	1,727	1,727
JB Hi-Fi New Zealand	13,669	14,346
JB Solutions division (Commercial)	6,397	6,397
	35,517	36,194

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 JB Solutions division (2014: 11.0%) and 11.5% for JB Hi-Fi New Zealand (2014: 11.5%). The cash flows beyond the budget period have been extrapolated using a steady 2% long term growth rate (2014: 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.

	Consolidated	
	2015 \$'000	2014 \$'000
<b>15 CURRENT LIABILITIES - TRADE AND OTHER PAYABLES</b>		
Trade payables	253,712	244,436
Goods and services tax (GST) payable	18,293	15,858
Other creditors and accruals	11,972	13,429
Deferred income	41,627	29,256
	325,604	302,979
<b>16 CURRENT LIABILITIES - PROVISIONS</b>		
Employee benefits	38,750	35,208
Lease provision <sup>(i)</sup>	1,835	1,632
	40,585	36,840

(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.



	Consolidated	
	2015 \$'000	2014 \$'000
<b>17 CURRENT LIABILITIES - OTHER CURRENT LIABILITIES</b>		
Lease accrual	1,836	1,777
Lease incentive	2,730	2,334
	4,566	4,111
<b>18 NON-CURRENT LIABILITIES - BORROWINGS</b>		
<b>Unsecured</b>		
Bank loans	139,461	179,653

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, operating lease expense, rent expense and share based payments expense divided by the sum of net interest expense plus operating lease expense plus rent expense) - not less than 1.75:1; and
- gearing ratio (outstanding net 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.

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

	Consolidated	
	2015 \$'000	2014 \$'000
<b>19 NON-CURRENT LIABILITIES - PROVISIONS</b>		
Employee benefits	4,323	4,162
Lease provision <sup>(i)</sup>	1,750	4,537
	6,073	8,699

(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.

**(a) Movement in provisions**

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

Consolidated - 2015	Lease provision <sup>(i)</sup> \$'000
Carrying amount at start of year	6,169
Additional provisions recognised	2,890
Amounts used during the year	(5,474)
Carrying amount at end of year	3,585

(i) Movement schedule is for the total lease provision, including the current provision (note 16) and the non-current provision (note 19).

	Consolidated	
	2015 \$'000	2014 \$'000
<b>20 NON-CURRENT LIABILITIES - OTHER NON-CURRENT LIABILITIES</b>		
Lease accrual	12,472	13,186
Lease incentive	13,192	11,452
	25,664	24,638

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2015

	Parent entity		Parent entity	
	2015 Shares	2014 Shares	2015 \$'000	2014 \$'000
<b>21 CONTRIBUTED EQUITY</b>				
<b>(a) Share capital</b>				
Ordinary shares - fully paid	98,989,901	98,947,309	56,521	58,383

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

### (b) Movements in ordinary share capital

Date	Details	Number of shares	\$'000
1 July 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
1 July 2014	Opening balance	98,947,309	58,383
	Issue of shares under the share option plans	333,956	3,125
	Share issue costs (net of tax)	–	(17)
	Share buy-back	(291,364)	(4,970)
30 June 2015	Closing balance	98,989,901	56,521

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

### (c) Share options

In accordance with the provisions of the Company's share option plans, as at 30 June 2015, executives and non-executive management have options over 2,403,618 ordinary shares (of which 2,270,674 were unvested), in aggregate, with various expiry dates.

As at 30 June 2014 executives and non-executive management had options over 2,798,881 ordinary shares (of which 2,663,051 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 objective is to maintain an optimal capital structure which seeks to reduce the cost of capital and to ensure the Group has access to adequate capital to sustain the future development of the business.

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

As part of its capital management program, the Group monitors the return on invested capital and the gearing ratio. The Group defines return on invested capital as earnings before interest and tax (EBIT) divided by the sum of total equity plus net debt and 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.

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



## 21 CONTRIBUTED EQUITY (continued)

### (d) Capital management (continued)

The Group's return on invested capital and gearing ratios as at 30 June 2015 and 30 June 2014 were as follows:

	Consolidated	
	2015 \$'000	2014 \$'000
<b>Return on invested capital</b>		
Profit before tax	195,532	182,677
Net finance costs	5,375	8,443
EBIT	200,907	191,120
Borrowings	139,461	179,653
Cash and cash equivalents	(49,131)	(43,445)
Net debt	90,330	136,208
Total equity	343,479	294,633
Invested capital	433,809	430,841
Return on invested capital	46.3%	44.4%
<b>Gearing</b>		
Term debt	140,000	180,000
EBIT	200,907	191,120
Depreciation and amortisation	39,124	35,530
EBITDA	240,031	226,650
Gearing	0.58	0.79
<b>22 RESERVES</b>		
Equity-settled benefits	21,829	17,950
Common control reserve	(6,054)	(6,054)
Hedging reserve - interest rate swaps	(70)	(71)
Hedging reserve - net investment	850	850
Foreign currency translation reserve	1,081	3,590
	17,636	16,265

### (a) Nature and purpose of reserves

#### (i) Equity-settled benefits

The equity-settled benefits reserve arises on the grant of share options to executives and non-executive management under the Company's share option plans. Further information about share based payments is in note 7 to the financial statements.

#### (ii) Common control reserve

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

#### (iii) Hedging reserve - interest rate swaps

The hedging reserve - interest rate swaps, represents hedging gains and losses recognised on the effective portion of cash flow hedges with respect to the Group's interest rate swaps, as described in note 1(h). 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.

**22 RESERVES (continued)**

**(a) Nature and purpose of reserves (continued)**

*(iv) 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.

*(v) 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(k).

	Consolidated	
	2015 Cents	2014 Cents
<b>23 EARNINGS PER SHARE</b>		
Basic (cents per share)	137.91	128.39
Diluted (cents per share)	136.46	126.89

	Consolidated	
	2015 \$'000	2014 \$'000
<b>(a) Reconciliation of earnings used in calculating earnings per share</b>		
<i>Basic earnings per share</i>		
Profit for the year attributable to owners of the Company	136,511	128,359
<i>Diluted earnings per share</i>		
Profit for the year attributable to owners of the Company	136,511	128,359

	Consolidated	
	2015 Number '000	2014 Number '000
<b>(b) Weighted average number of shares used as the denominator</b>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	98,982	99,975
Adjustments for calculation of diluted earnings per share:		
Options	1,055	1,186
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	100,037	101,161

**(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 (1,055,452 options are considered dilutive (2014: 1,186,484), 1,273,774 are considered anti-dilutive (2014: 1,560,673)). The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 7.

	2015		2014	
	<i>Cents per share</i>	<i>\$'000</i>	<i>Cents per share</i>	<i>\$'000</i>
<b>24 DIVIDENDS</b>				
<b>Recognised amounts</b>				
Final Dividend - previous financial year	29.00	28,778	22.00	21,973
Interim Dividend - current financial year	59.00	58,396	55.00	55,210
	88.00	87,174	77.00	77,183
<b>Unrecognised amounts</b>				
Final Dividend - current financial year	31.00	30,687	29.00	28,778

In respect of the financial year ended 30 June 2015, the directors have recommended the payment of a final dividend of 31.0 cents per share. The record date is 28 August 2015.

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

	Consolidated	
	<i>2015 \$'000</i>	<i>2014 \$'000</i>
<b>(a) Franking account balance</b>		
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2014: 30.0%)	133,964	111,111

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 \$13,152 thousand (2014: \$12,298 thousand).

## 25 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>2015 \$'000</i>	<i>2014 \$'000</i>
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	76,979	72,361
Later than one year but not later than five years	214,263	214,621
Later than five years	72,237	71,249
	363,479	358,231

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2015

### 26 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	
			2015 %	2014 %
<b>Parent entity</b>				
JB Hi-Fi Limited <sup>(i)</sup>				
<b>Subsidiaries</b>				
JB Hi-Fi Group Pty Ltd <sup>(ii)</sup>	Australia	Ordinary	100	100
Clive Anthonys Pty Ltd <sup>(ii)</sup>	Australia	Ordinary	100	100
JB Hi-Fi (A) Pty Ltd <sup>(ii)</sup>	Australia	Ordinary	100	100
Rocket Replacements Pty Ltd <sup>(ii)</sup>	Australia	Ordinary	100	100
JB Hi-Fi Education Solutions Pty Ltd <sup>(iii)</sup>	Australia	Ordinary	100	100
JB Hi-Fi Group (NZ) Limited	New Zealand	Ordinary	100	100
JB Hi-Fi NZ Limited	New Zealand	Ordinary	100	100

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

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

(iii) 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.

## 27 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 JB Hi-Fi Education Solutions Pty Ltd (formerly 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:

	2015 \$'000	2014 \$'000
<b>(a) Consolidated statement of profit or loss, statement of profit or loss and other comprehensive income</b>		
<b>Statement of profit or loss</b>		
Revenue	3,456,016	3,292,848
Cost of sales	(2,693,370)	(2,571,287)
<b>Gross profit</b>	762,646	721,561
Other income	486	423
Sales and marketing expenses	(353,667)	(336,515)
Occupancy expenses	(149,883)	(139,536)
Administration expenses	(26,183)	(26,149)
Finance costs	(5,921)	(8,736)
Other expenses	(33,530)	(31,155)
Profit before income tax	193,948	179,893
Income tax expense	(58,593)	(53,463)
<b>Profit for the year</b>	135,355	126,430
<b>Statement of profit or loss and other comprehensive income</b>		
<b>Profit for the year</b>	135,355	126,430
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges (net of tax)	1	576
<b>Other comprehensive income for the year (net of tax)</b>	1	576
<b>Total comprehensive income for the year</b>	135,356	127,006

27 DEED OF CROSS GUARANTEE (continued)

	2015 \$'000	2014 \$'000
<b>(b) Balance sheet</b>		
<b>Current assets</b>		
Cash and cash equivalents	45,083	42,859
Trade and other receivables	78,281	67,056
Inventories	443,179	421,304
Other	7,333	5,248
Total current assets	573,876	536,467
<b>Non-current assets</b>		
Other financial assets	51,644	51,644
Plant and equipment	163,892	170,763
Deferred tax assets	15,811	12,861
Intangible assets	70,873	70,873
Total non-current assets	302,220	306,141
<b>Total assets</b>	876,096	842,608
<b>Current liabilities</b>		
Trade and other payables	308,066	288,552
Current tax liabilities	9,516	8,235
Provisions	39,156	35,503
Other financial liabilities	107	79
Other	4,405	3,969
Total current liabilities	361,250	336,338
<b>Non-current liabilities</b>		
Borrowings	139,461	179,653
Provisions	6,073	8,699
Other financial liabilities	-	25
Other	24,851	23,631
Total non-current liabilities	170,385	212,008
<b>Total liabilities</b>	531,635	548,346
<b>Net assets</b>	344,461	294,262
<b>Equity</b>		
Contributed equity	56,521	58,383
Reserves	16,556	12,675
Retained earnings	271,384	223,204
<b>Total equity</b>	344,461	294,262



## 28 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 2015 is as follows:

<b>2015</b>	<i>Australia</i> \$'000	<i>New Zealand</i> \$'000	<i>Total</i> \$'000
Revenue from external customers	3,456,016	196,120	3,652,136
Operating EBITDA	236,223	3,808	240,031
Total segment assets	876,096	70,632	946,728
Additions to plant and equipment	37,841	4,625	42,466
Depreciation and impairment	37,895	2,348	40,243
Total segment liabilities	531,635	19,970	551,605

<b>2014</b>	<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

### (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:

	<b>Consolidated</b>	
	<i>2015</i> \$'000	<i>2014</i> \$'000
<b>Operating EBITDA</b>	240,031	226,650
Interest revenue	552	402
Finance costs	(5,927)	(8,845)
Depreciation and amortisation	(39,124)	(35,530)
<b>Profit before income tax from continuing operations</b>	195,532	182,677

**28 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:

	<b>Consolidated</b>	
	<i>2015</i> \$'000	<i>2014</i> \$'000
<b>Segment assets</b>	946,728	911,609
Intersegment eliminations	(51,715)	(51,768)
<b>Total assets as per the balance sheet</b>	<b>895,013</b>	<b>859,841</b>

**(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:

	<b>Consolidated</b>	
	<i>2015</i> \$'000	<i>2014</i> \$'000
<b>Segment liabilities</b>	551,605	565,333
Intersegment eliminations	(71)	(125)
<b>Total liabilities as per the balance sheet</b>	<b>551,534</b>	<b>565,208</b>

**(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.

	Parent Entity	
	2015 \$'000	2014 \$'000
<b>29 PARENT ENTITY FINANCIAL INFORMATION</b>		
<b>Assets</b>		
Current assets	344	4,331
Non-current assets	90,487	85,912
Total assets	90,831	90,243
<b>Liabilities</b>		
Current liabilities	10,496	10,154
Non-current liabilities	20	–
Total liabilities	10,516	10,154
<b>Shareholders' equity</b>		
Contributed equity	56,521	58,383
Reserves	21,829	17,950
Retained earnings	1,965	3,754
	80,315	80,087
<b>Profit for the year</b>	85,385	77,309
<b>Total comprehensive income</b>	85,385	77,309

### 30 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 26.

#### (c) Key management personnel

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

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

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

### 31 EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 10 August 2015, the Company announced that it would conduct an on-market buy-back in order to offset the dilutionary impact of shares to be issued pursuant to the exercise of employee share options between the date of the previous buy-back, completed on 12 September 2014, and 4 September 2015. The maximum number of shares that will be purchased is 776,610 and the buy-back is scheduled to commence in September 2015.

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

**32 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:

	<b>Consolidated</b>	
	2015 \$'000	2014 \$'000
Cash and cash equivalents	49,131	43,445
Bank overdrafts	–	–
Balances per statement of cash flows	49,131	43,445
<b>(b) Reconciliation of net cash inflow from operating activities to profit</b>		
Profit for the year	136,511	128,447
Depreciation and amortisation	39,124	35,530
Impairment of plant and equipment	1,119	–
Non-cash employee benefits expense - share-based payments	3,508	3,592
Net loss on sale of non-current assets	997	382
Fair value adjustment to derivatives	111	937
Change in operating assets and liabilities net of effects from acquisition of businesses:		
(Increase) decrease in inventories	(22,011)	(29,580)
(Increase) decrease in current receivables	(10,836)	(6,169)
(Increase) decrease in other current assets	(2,097)	723
(Increase) decrease in deferred tax assets	(2,454)	637
(Decrease) increase in current payables	25,892	(88,212)
(Decrease) increase in current provisions	3,817	155
(Decrease) increase in other current liabilities	491	175
(Decrease) increase in non-current provisions	2,847	(716)
(Decrease) increase in other non-current liabilities	1,279	2,162
(Decrease) increase in current tax liabilities	1,598	(6,737)
Net cash inflow from operating activities	179,896	41,326

**33 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.

### 33 FINANCIAL RISK MANAGEMENT (continued)

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

	Consolidated	
	2015 \$'000	2014 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	49,131	43,445
Trade and other receivables	81,480	70,745
	130,611	114,190
<b>Financial liabilities</b>		
Trade and other payables	283,977	273,723
Bank loans	139,461	179,653
Interest rate swaps (net settled)	107	104
	423,545	453,480

#### (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 2015		30 June 2014	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
<b>Consolidated</b>				
Bank loans	3.70%	140,000	5.27%	180,000
Interest rate swaps (notional principal amount)	4.11%	(30,000)	6.80%	(30,000)
Net exposure to cash flow interest rate risk		110,000		150,000

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.

**33 FINANCIAL RISK MANAGEMENT (continued)**

**(a) Market risk (continued)**

*(iii) Summarised sensitivity analysis*

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

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

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

Consolidated	Interest rate risk				
	Carrying amount \$'000	-50 bps		+50 bps	
		Profit \$'000	Other equity \$'000	Profit \$'000	Other equity \$'000
<b>At 30 June 2015</b>					
<b>Financial liabilities</b>					
Interest rate swaps	107	(98)	(40)	98	40
Borrowings	139,461	182	–	(182)	–
<b>Total increase/(decrease)</b>		<b>84</b>	<b>(40)</b>	<b>(84)</b>	<b>40</b>

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

**(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	
	2015 \$'000	2014 \$'000
Unsecured bank overdraft facility:		
amount used	–	–
amount unused	88,854	89,293
	<b>88,854</b>	<b>89,293</b>
Unsecured indemnity guarantees:		
amount used	522	601
amount unused	78	1,099
	<b>600</b>	<b>1,700</b>
Unsecured bank loan facilities (term debt):		
amount used <sup>(i)</sup>	140,000	180,000
amount unused	60,000	20,000
	<b>200,000</b>	<b>200,000</b>
Headroom in total borrowing facilities (excluding security indemnity guarantees)	<b>148,854</b>	<b>109,293</b>

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

### 33 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	%
<b>2015</b>							
<b>Financial Assets</b>							
Cash and cash equivalents	49,131	–	–	–	–	49,131	1.96%
Trade and other receivables	81,480	–	–	–	–	81,480	–
	130,611	–	–	–	–	130,611	
<b>Financial liabilities</b>							
Trade and other payables	283,977	–	–	–	–	283,977	–
Bank loans	2,588	2,588	5,175	145,175	–	155,526	3.70%
Interest rate swaps (net settled)	107	–	–	–	–	107	–
	286,672	2,588	5,175	145,175	–	439,610	

	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	%
<b>2014</b>							
<b>Financial assets</b>							
Cash and cash equivalents	43,445	–	–	–	–	43,445	2.13%
Trade and other receivables	70,745	–	–	–	–	70,745	–
	114,190	–	–	–	–	114,190	
<b>Financial liabilities</b>							
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	–	–	107	–
	278,509	4,775	189,506	–	–	472,790	

#### (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.

**33 FINANCIAL RISK MANAGEMENT (continued)**

**(d) Fair value of financial instruments**

The only financial liabilities or financial assets carried at fair value is the interest rate swap. The interest rate swap is considered to be Level 2 financial instruments because, unlike Level 1 financial instruments, its 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 swap's fair value has 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.

**34 DIRECTORY**

**Registered office / principal place of business**

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



## ADDITIONAL SECURITIES EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 3 August 2015.

### 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	14,848	5,865,124	5.92
1,001 - 5,000	5,109	10,643,134	10.75
5,001 - 10,000	440	3,117,057	3.15
10,001 - 100,000	249	5,788,016	5.84
100,001 and over	27	73,613,573	74.34
	20,673	99,026,904	100.00

There were 321 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. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	16,659,347	16.82
2. J P MORGAN NOMINEES AUSTRALIA LIMITED	16,573,835	16.74
3. NATIONAL NOMINEES LIMITED	16,250,345	16.41
4. CITICORP NOMINEES PTY LIMITED	11,480,604	11.59
5. BNP PARIBAS NOMS PTY LTD <DRP>	4,423,180	4.47
6. AMP LIFE LIMITED	955,431	0.96
7. WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	774,091	0.78
8. CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	764,374	0.77
9. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	585,604	0.59
10. BOND STREET CUSTODIANS LIMITED <COCKEJ - F01832 A/C>	566,310	0.57
11. NAVIGATOR AUSTRALIA LTD <SMA ANTARES INV DV BUILD A/C>	545,783	0.55
12. SHAWVILLE PTY LTD	500,160	0.51
13. RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	431,603	0.44
14. BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	398,123	0.40
15. SBN NOMINEES PTY LIMITED <10004 ACCOUNT>	378,000	0.38
16. UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	320,355	0.32
17. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	278,385	0.28
18. NATIONAL NOMINEES LIMITED <N A/C>	241,599	0.24
19. THE AUSTRALIAN NATIONAL UNIVERSITY	236,040	0.24
20. NATIONAL NOMINEES LIMITED <DB A/C>	222,830	0.23
	72,585,999	73.29

**C. Substantial holders**

Substantial holders in the Company are set out below:

**Ordinary shares**

	<i>Number held</i>	<i>Voting Power %</i>
UBS Group AG and its related bodies corporate	7,560,432	7.63
National Australia Bank Limited	5,240,853	5.29
Legg Mason Asset Management Australia Limited	5,203,548	5.25
Vinva Investment Management	5,135,152	5.19
Australian Super Pty Ltd	5,006,074	5.06

**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	2,267,430	85

## CORPORATE INFORMATION

ABN 80 093 220 136

### 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<sup>(i)</sup>

#### Australia

##### VIC

Airport West  
Altona  
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  
Pakenham  
Plenty Valley  
Prahran  
Preston  
Preston - Northland  
Ringwood  
Shepparton  
South Wharf  
Southland  
Springvale  
Sunshine  
Thomastown  
Traralgon  
Watergardens  
Waurm 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  
Wetherill Park  
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  
Pacific Fair  
Robina - Gold Coast  
Rockhampton  
Strathpine  
Toowoomba  
Townsville  
Townsville Willows

##### SA

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

##### WA

Armadale  
Booragoon  
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  
Wairau Park  
Wellington  
Westgate

(i) Current as at 30 June 2015



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