



ANNUAL REPORT
2009

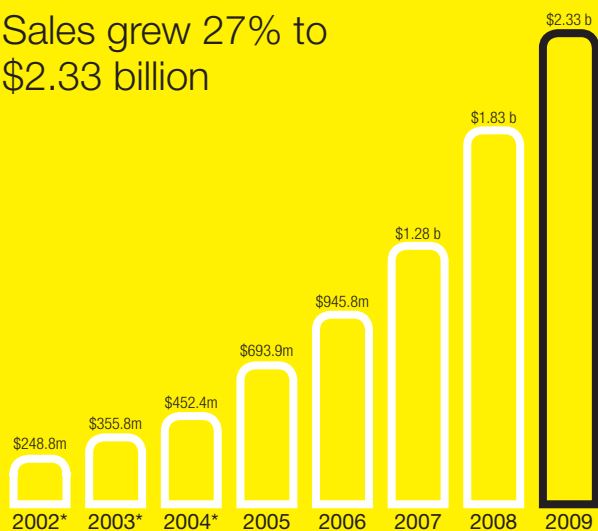
Financial Summary

FINANCIAL PERFORMANCE

| | 2004* | 2005 | 2006 | 2007 | 2008 | 2009 | % |
|------------------------|-------|-------|-------|---------|---------|---------|------|
| Sales revenue (\$m) | 452.4 | 639.9 | 945.8 | 1,281.8 | 1,828.6 | 2,327.3 | 27.3 |
| EBIT (\$m) | 22.8 | 34.7 | 44.5 | 65.5 | 102.3 | 142.0 | 38.8 |
| NPAT (\$m) | 13.8 | 19.5 | 25.8 | 40.4 | 65.1 | 94.4 | 45.1 |
| Earnings per share (¢) | 13.5 | 19.0 | 25.0 | 38.8 | 61.8 | 88.3 | 42.9 |

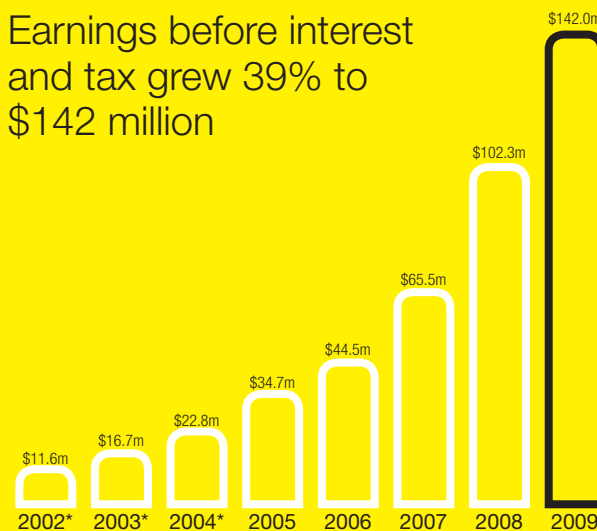
Sales +27%

Sales grew 27% to \$2.33 billion



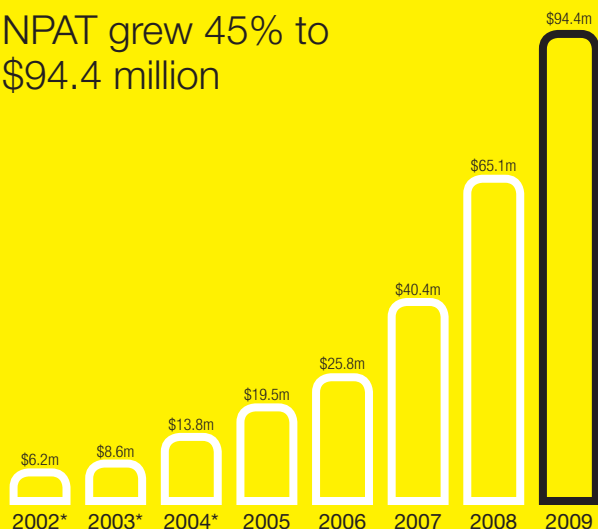
EBIT +39%

Earnings before interest and tax grew 39% to \$142 million



NPAT +45%

NPAT grew 45% to \$94.4 million



Stores

19 new stores were opened and 1 closed, taking the total stores at year end to 123



*2001-2004 figures based on AGAAP

Chairman's and Chief Executive Officer's Report

Dear fellow shareholder,

JB Hi-Fi Limited (referred to below as JB Hi-Fi or the Company) achieved revenue growth of 27%, EBIT growth of 39% and NPAT growth of 45% for the year ended 30 June 2009. During the year 19 stores were opened.

Result

JB Hi-Fi has delivered another record result with sales up 27.3% on the prior year. This was achieved through a combination of strong comparative stores sales growth, continued expansion of our product offering and the maturing of the 39 stores opened during the last 2 years.

The macro economic environment in which the company operated throughout the year has been the most challenging since the opening of our first store in 1974. Reassuringly the company grew during the last recession of the early 1990s and has continued to do so since the onset of the Global Financial Crisis. The performance of the company during this period highlights the strength of the sectors in which we operate and our business model.

There have been a number of trends emerging over the last 12 months that supported our continued strong growth. Technology products continue to create new markets (e.g. the success of the Nintendo Wii has brought gaming to a previously untapped market segment) and drive down replacement cycles (e.g. HD TV panels, BluRay DVD, HD video cameras) that sees the market for home entertainment products grow faster than overall retail spend. Price deflation, particularly of more expensive items such as televisions has increased household penetration. During this period of economic uncertainty, we have also seen an increasing focus on life within the home and a switch in expenditure away from high ticket price out of home purchases such as holidays and cars. Finally, there is the "drift to thrift". Value became a stronger influencer of buyer behaviour and JB Hi-Fi has continued to build on its reputation of every day low prices.

This ability to continue to deliver on our every day low price promise is only possible with every day low operating costs. The relentless pursuit by the company to identify and eliminate waste and to improve productivity has resulted in a further reduction in our Cost of Doing Business (CODB) by 77 bps to 14.5% of sales. Over the last 2 years we have delivered a reduction in our CODB of 1.5% and at current levels we believe we have the most productive model of any of the listed retailers. This reduction in CODB has funded lower prices to customers

whilst increasing returns to shareholders from an EBIT margin of 5.1% to 6.1% over the same period.

This ongoing focus on cost management and productivity gains is not something undertaken when performance ebbs but is part of our DNA. Increasing scale continues to provide further opportunity to reduce CODB and increase EBIT margins.

Gross margin in Australia at 21.9% was consistent with last year, despite the growth of newer lower margin categories like games and computers. Consolidated gross margin was 21.6% (last year: 21.9%) reflecting our everyday low prices strategy and investment in New Zealand. We would expect gross margins to improve in New Zealand as we move from market entry to a more established market presence.

Cashflow generated from operations was \$145.6 million, reflecting strong cash generation from established stores. As the ratio of new stores to established stores lessens the company has migrated from a net investor of cash to a net generator of cash. Debt remains at conservative levels, with net debt reducing to \$53.6 m (last year \$124.5 m), interest cover of 17.7 times and a fixed charges cover ratio of 3.8 times. Return on equity of 41.2%, up 1.5% on last year, reflects the low capital intensity of the business model.

At the end of the year we were operating 123 stores across Australia and New Zealand (106 branded JB Hi-Fi). Our rate of growth in part is determined by access to quality sites. We continue to secure around 15 sites annually and expect this to continue. It is estimated that 18 stores will be opened in the 09/10 fiscal year.

The Board estimates that the market can sustain at least 160 JB Hi-Fi full size stores in these markets before new store openings begin to have a material impact on existing store operations. The company has also commenced identifying and rolling out a smaller format JB Hi-Fi store. These stores will be located in shopping centres and regional areas with smaller population catchments. It is estimated that the company should be able to open 50 of these smaller format stores.

JB Hi-Fi continues to be able to attract and retain a knowledgeable and enthusiastic workforce as the rapid growth of the business provides tangible career progression with increased responsibility and compensation prospects. JB Hi-Fi believes a key component of its success is the strong relationship it has built with its employees, which continues to be an ongoing focus for the board and management.

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

- Games - JB Hi-Fi's success in the games market has continued since its introduction in May 2005. We continue to capture an increasing share of a \$2.0 billion annual market consolidating our position as one of the top two retailers in the category. New technology such as the Nintendo Wii opens gaming to a whole new market and drives ancillary sales of game software and accessories.
- Computers - In May 2006, JB Hi-Fi announced its entry into the \$2.3 billion computer and IT market, which is growing at 15% per annum. We are very pleased with progress to date and estimate that we are now in the top two retailers in the category.
- Mobile telecommunications (including broadband) - In June 2007, JB Hi-Fi announced its entry into the mobile telecommunications market. While the telecommunications market is a large market in itself, with digital convergence typified by the success of the Apple iPhone, the market complements many of JB Hi-Fi's existing categories including computers, portable audio, digital camera's and media and suits our customer base of young, mobile and tech savvy consumers. JB Hi-Fi's discount positioning and specialist sales people will ensure competitiveness with other retailers. We were awarded the Telstra Pinnacle Dealer Channel Partner of the Year award in August 2009 for the highest growth of any of their channel partners. We expect that this category will become increasingly important in future years.
- Flat panel televisions (LCD, LED and Plasma). Whilst the Company has been a major player in flat panel televisions for the last 5 years, increased market penetration driven by price deflation and the benefit of high definition has seen this category continue to grow strongly. Market penetration of flat panels in Australia is estimated at close to 50% of households compared to close to 100% for all TVs. Full high definition television penetration is still estimated to be only 10-15%. We anticipate this will continue to drive solid growth in the next few years.

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

Clive Anthonys

Following the full buy out of the Clive Anthonys business in 2007, the head office support services have been fully integrated with the company's head office function. The financial crisis was more fully felt in the broader home appliance

market in which Clive Anthonys operates. We have continued to grow within the home market of Queensland and opened our first stores in Victoria and the ACT. The growth rate of Clive Anthonys is slower than JB Hi-Fi as we continue to refine the model but remain of the belief that we can access a substantial market though further growth of the brand.

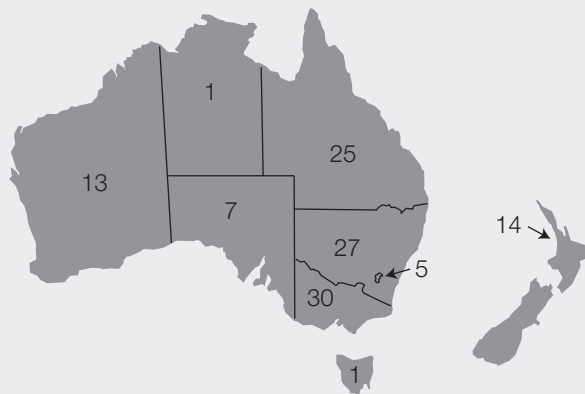
New Zealand Expansion

JB Hi-Fi entered the New Zealand market in March 2007 via the purchase of the Hill and Stewart chain. At year end we have 8 JB Hi-Fi branded stores and 6 Hill and Stewart stores.

New Zealand has been in recession for the full 08/09 year with retail conditions much more difficult than those experienced in Australia. Notwithstanding these macro economic factors, the company opened 3 new stores in the year, grew comparative store sales by 8.8% and saw modest improvement in gross margin to 16.9%.

Increasing scale in New Zealand continues to drive better buying terms and improved leverage of advertising and country related fixed costs. JB Hi-Fi's unique product offering and customer experience is being similarly received in New Zealand, as it was at a similar stage in Australia.

Total Stores: 123*
(JB Aust. 98, CA 11, JB NZ 8, H&S 6)



* As at 30 June 2009

Board, Corporate Governance and Management Approach

The relationship between the Board and management remains engaging and constructive. To date, JB Hi-Fi has continually exceeded the expectations set by the Board. It remains the Board's strategy to encourage experimentation with new products, merchandising formats, advertising and property locations in a controlled and responsible manner. The Board

firmly believes that equity participation through JB Hi-Fi's employee option plan remains a critical tool in attracting new management, retaining existing management and rewarding performance whilst maintaining a strong alignment of interests with shareholders.

Dividend

JB Hi-Fi will pay a final dividend of 29 cents per share fully franked for the year ended 30 June 2009, up 81% from the same payment last year. This brings total dividends for the year to 44 cents per share, up 69% on last year. This represents a payout ratio of approximately 50%. The company now funds all of the new store rollout from internally generated cashflow.

In increasing the dividends for the 08/09 financial year, the Board has considered the current and forecast financial performance of the business and anticipated capital requirements in the short to medium term, including the new store rollout program, ongoing capital expenditure and current and expected performance against key financial ratios. It is the Board's current objective to grow dividends in line with earnings in order to maintain an efficient capital structure.

Outlook

Much of the uncertainty in the macro economy appears to have abated. Australia appears to have avoided recession, consumer and business confidence are both on the rise and normal patterns of consumer spending are likely to emerge.

Whilst the retail sector was buoyed in the last fiscal year by the government stimulus program, the company traded consistently prior to and subsequent to the payments being disbursed. Accordingly the Board are of the view that we should see consistent trading in 09/10 with sales forecast to grow by 20% to \$2.8 billion.

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



Patrick Elliott
Chairman



Richard Uechtritz
Chief Executive Officer

Melbourne,
3 September 2009

Annual Report

for the financial year ended **30 June 2009**

| | Page |
|---|-------------|
| Governance, environmental and social statements | 5 |
| Directors' report | 12 |
| Auditor's independence declaration | 33 |
| Independent auditor's report | 34 |
| Directors' declaration | 36 |
| Income statement | 37 |
| Key statistical data | 37 |
| Balance sheet | 38 |
| Statement of changes in equity | 39 |
| Cash flow statement | 40 |
| Notes to the financial statements | 41 |
| Additional stock exchange information | 83 |

GOVERNANCE, ENVIRONMENTAL AND SOCIAL STATEMENTS

JB Hi-Fi Limited ("the Company" or "JB Hi-Fi") recognises that our shareholders, suppliers and customers are increasingly interested in our position and policies around Governance, Environmental and Social matters. As a company JB Hi-Fi has grown significantly since its listing in 2003 and was recently included in the ASX100 index. As one of Australia's leading retailers we are increasing our direct and indirect investment in understanding how JB Hi-Fi can work with its suppliers and other stakeholders to ensure we develop our policies in this regard. As we continue to develop strategies in regard to Governance, Environmental and Social matters, we will engage in an ongoing manner with our shareholders, investors, staff and other stakeholders to ensure JB Hi-Fi's policies in these regards are appropriate and relevant.

GOVERNANCE STATEMENT

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

The Board believes that JB Hi-Fi's policies and practices comply in all substantial respects with the ASX Corporate Governance Council Principles of Good Corporate Governance. JB Hi-Fi respects and values the rigour of the ASX Principles of Good Corporate Governance and Best Practice Recommendations. The Board believes that it has been compliant with the spirit of The Corporate Governance Principles and Best Practice Recommendations during the 2009 financial year.

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

THE BOARD

Role

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

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

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

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

Composition

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

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

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

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

Independence

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

If a conflict of interest arises, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. Directors must keep the Board advised, on an ongoing basis, of any interests that could potentially conflict with those of the Company. Directors are required to promptly disclose to the Board interests in contracts, other directorships or offices held, possible related party transactions and sales or purchases of the Company's shares.

Selection and appointment of directors

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

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

Board meetings

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

Access to information and independent advice

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

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

Code of ethics

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

The key elements of the code are:

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

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

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

Shareholdings of directors and employees

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

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

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

INTEGRITY OF REPORTING

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

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

- a. the Company's financial reports represent a true and fair view, in all material respects, of JB Hi-Fi's financial condition and operational results and are in accordance with relevant accounting standards;
- b. the statement in (a) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- c. the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Company's financial statements are subject to an annual audit by an independent, professional auditor who also reviews the Company's half yearly financial statements. The Audit and Risk Management Committee oversees this process on behalf of the Board. The Company's external audit firm was most recently appointed in 2002. The audit engagement partner is rotated every five years in line with the agreement between the audit firm and JB Hi-Fi.

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

Continuous disclosure

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

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

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

Shareholders communications

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

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

The Company will request that the external auditor attend its Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

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

RISK IDENTIFICATION AND MANAGEMENT

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

Board performance

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

DIRECTORS' FEES AND EXECUTIVE REMUNERATION

Directors' fees

In line with the JB Hi-Fi Constitution, total remuneration for non-executive directors must not exceed \$600,000 per annum or any other amount per annum determined by the Company in an Annual General Meeting. The Board, within the aggregate amount of \$600,000, determines non-executive directors' individual fees.

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

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

Executive remuneration

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

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

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

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

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

BOARD COMMITTEES

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

Audit and Risk Management Committee

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

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

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

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

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

Details of the qualifications of each of the non-executive directors are outlined in the Directors' Report.

The Audit and Risk Committee meets regularly. Details of the meetings held and members' attendance during the 2009 Financial Year are listed in the Director's Report of the Annual Report. Directors who are not members of a committee may attend any committee meeting following consultation with the Chairperson of the relevant committee.

Remuneration Committee

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

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

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

The Remuneration Committee comprises three directors, two of whom are non-executive directors:

- Patrick Elliott: Ongoing member and chairman of committee;
- Richard Uechtritz: Ongoing member of committee; and
- Will Fraser: Ongoing member of committee.

The Remuneration Committee meets as required. Details of the meetings held and members' attendance during the 2009 Financial Year are listed in the Director's Report of the Annual Report.

Nominations Committee

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

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

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

ENVIRONMENTAL STATEMENT

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

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

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

Carbon Disclosure Project 2009

In 2009 JB Hi-Fi responded for the first time 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 put systems in place to ensure we are now reporting energy consumption and greenhouse gas emissions.

National Packaging Covenant

JB Hi-Fi is a signatory to the National Packaging Covenant. This is a voluntary program involving both Government and industry to ensure the environmental impact from packaging is reduced, measured and understood.

Support Office

In June 2009, the JB Hi-Fi Support Office relocated to a new environmentally friendly "five star energy rated" office building.

In addition to the underlying efficiency of the building, the follow strategies have been put in place:

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

Mobile Muster

JB Hi-Fi recently became a signatory to the Mobile Muster, which is a service that allows consumers to return mobile phones for recycling. JB Hi-Fi is in the process of placing Mobile Muster signage in communication departments in our stores where consumers can take postage-paid envelopes to return used phones as they update to new models. We expect the roll out of the Mobile Muster program to all stores to be finalised by the end of September 2009.

Store recycling initiatives

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

E-Waste

JB Hi-Fi supports a nationally consistent approach towards collection and recycling of end of life televisions and computers and we are aware that the Environment Protection and Heritage Council are due in November 2009 to finalise product stewardship arrangements.

Product Efficiency

Minimum Energy Performance Standards (MEPS) will require retailers to ensure all televisions have energy efficiency labels. JB Hi-Fi, in partnership with our suppliers, is working through implementation of this initiative.

SOCIAL STATEMENT

JB Hi-Fi launched its Workplace Giving Program – “Helping Hands” in November 2008, of which 250 employees now make weekly contributions. The program is operated with the support of Australian Charities Fund (ACF). Through this program, JB Hi-Fi employees are able to donate to five registered charitable organisations. These charities were selected after a survey of the employees identified the causes our employees considered important. Employee donations are matched by JB Hi-Fi and in just over 7 months in the 2009 financial year, the Company and its employees are proud to have raised more than \$400,000, including amounts discussed below in regard to the Victorian Bushfire Appeal.

Our current charity partners are Australian Bush Heritage Fund, Inspire Foundation’s Reach Out Program, Mediciens Sans Frontieres (Doctors without Borders), Sunrise Children’s Village (Cambodia) and The Song Room.

As with all Australians, JB Hi-Fi and its employees were horrified by the tragic bushfires in Victoria in February 2009. As a result, we immediately added the Red Cross Australia – ‘Victorian Bushfire Appeal’ Fund to our program, which resulted in JB Hi-Fi and over 650 employees raising \$177,000 towards the bushfire appeal.

In addition JB Hi-Fi donates cash or product to a range of charities during the year on an ad hoc basis. JB Hi-Fi empowers shop managers with a discretionary donation spend pool for local community causes.

DIRECTORS' REPORT

The directors of JB Hi-Fi Limited submit herewith the annual financial report of the Company and the consolidated entity ("the Group") for the financial year ended 30 June 2009. 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> |
|---|--|
| Patrick Elliott Chairman Non-Executive Director B.Comm LLB, MBA (Hon) | Mr Elliott is an executive director of Next Capital Pty Limited, a private equity manager. He is also a non-executive director of Steelforce Holdings Pty Limited and RPG Holdings Pty Ltd. Prior to founding Next Capital Pty Limited, Mr Elliott was an executive director of Macquarie Direct Investment Limited, the private equity division of Macquarie Bank Limited. Mr Elliott was appointed to the Board in July 2000 and was Chairman from July 2000 to March 2006 and was reappointed Chairman in September 2007. |
| Will Fraser Non-Executive Director PhD | Dr Fraser retired in 1999 as Chairman and Managing Director of Kodak Australasia Pty Ltd, an appointment that followed two years in London as a Corporate Vice President of Eastman Kodak and Regional Business General Manager, Consumer Imaging of Europe, Africa, India and the Middle East region. He is currently a member of the Board of Trustees of the Baker Foundation. Dr Fraser was appointed to the Board in September 2003. Dr Fraser is currently a member of the Remuneration Committee. |
| James King Non-Executive Director B.Comm, FAICD | Mr King has over 25 years experience in major multi-national corporations in Australia and internationally. He was previously with Foster's Group Limited as Managing Director Carlton & United Breweries and Managing Director Foster's Asia. Prior to joining Fosters, he spent six years in Hong Kong as President of Kraft Foods (Asia Pacific). He is currently a non-executive director of Navitas Ltd and Trust Company Ltd. Mr King is also Chairman of Juvenile Diabetes Research Foundation (Victoria) and on the Council of Xavier College. Mr King is a Fellow of the Australian Institute of Company Directors. Mr King was appointed to the Board in October 2003 and was Chairman from March 2006 until September 2007. Mr King is currently Chairman of the Audit and Risk Management Committee. |
| Gary Levin Non-Executive Director B.Comm, LLB | Mr Levin has over 25 years experience on the boards of public and private companies in the retail, investment and renewable energy fields in executive and non-executive roles. He is currently on the board of a number of private investment companies. Mr Levin holds a Bachelor of Commerce and Bachelor of Laws from the University of New South Wales and is a member of the New South Wales Bar Association and the Australian Institute of Company Directors. Mr Levin has been a director and member of the Audit and Risk Management Committee of JB Hi-Fi since November 2000. |
| Greg Richards Non-Executive Director B.Ec (Hons) | Mr Richards has over 25 years experience in the investment banking industry. Most recently he was with Goldman Sachs JBWere for over 19 years where he was an equity partner for 17 years, working primarily in equity capital markets. He is also currently involved as a consultant to Upstream Print Solutions Group and works in a voluntary capacity with several not-for-profit entities. Mr Richards was appointed to the Board in December 2007. Mr Richards is currently a member of the Audit and Risk Management Committee. |
| Terry Smart Chief Operating Officer and Executive Director | Mr Smart has over 15 years experience in retailing. He is a former director and General Manager of Kodak's retail operations. Mr Smart led the implementation of JB Hi-Fi's management information systems. He is responsible for the Group's systems and processes which underpin the store operations. Mr Smart joined the management buy-in of JB Hi-Fi in July 2000. |
| Richard Uechtritz Chief Executive Officer and Executive Director | Mr Uechtritz has over 20 years experience in retailing. He was co-founder of Australia's two leading photo chains, Rabbit Photo and Smith Kodak Express. Mr Uechtritz was also a director of Kodak (Australasia) Pty Ltd. Mr Uechtritz led the management buy-in of JB Hi-Fi in July 2000. |

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> |
|-------------------|---|-------------------------------|
| Gary Levin | Babcock & Brown Environmental Investments Limited | January 2002 to May 2009 |
| James King | Navitas Limited (formerly IBT Education Limited) | Since 2004 |
| | Trust Company Limited | Since February 2007 |
| | Tattersalls Limited | May 2005 to October 2006 |
| | Babcock & Brown Environmental Investments Limited | September 2006 to May 2008 |

Company secretary

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

Principal activity

The Group's principal activity in the course of the financial year was the retailing of home consumer products, with particular focus on:

- consumer electronics and electrical goods; and
- software including music, games and movies, from stand alone destination sites and shopping centre locations, offering a wide range of leading brands.

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

Review of operations

The consolidated profit after tax of the Group for the financial year, that was attributable to members of the parent entity was \$94,438,000 (2008: \$65,085,000) which is 45.1% greater than the consolidated profit after tax for the previous financial year.

Consolidated sales for the financial year were \$2,327,266,000 (2008: \$1,828,564,000), which is 27.3% greater than the consolidated sales for the previous financial year.

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

A. OVERVIEW

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

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

- Comparable store sales growth;
- Gross margin by store and product category;
- Cost of doing business;
- Store earnings before interest and tax (EBIT) contribution;
- EBIT margin;
- Earnings per share (EPS);
- Financial covenants and measures including gearing, interest cover and fixed charges ratio;
- Working capital measures including inventory and creditors turnover; and
- Return on equity and return on invested capital.

Dynamics of the Group

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

Opportunities:

- JB Hi-Fi offers one of Australia and New Zealand's largest ranges of home entertainment and electrical products at discounted prices, positioned to appeal to all customers, through its JB Hi-Fi, Clive Anthony's and Hill & Stewart branded stores. The Group maintains a low cost operating model designed to underpin competitive pricing in its store network.
- JB Hi-Fi's strategic initiatives for growth include:
 - targeting high growth segments of the home entertainment market and expansion into computers and telecommunications;
 - continued roll-out of JB Hi-Fi stores in Australia and New Zealand;
 - ensuring recently opened stores mature rapidly and profitably;
 - continuing to improve the efficiency and profitability of existing stores; and
 - opening new stores – the Group has opened 103 new stores over the last nine years, and has plans to continue expanding with 18 new stores forecast to open in the 2010 financial year. JB Hi-Fi has a strong store representation in all Australian states and territories and aims to have 9 JB Hi-Fi branded stores in New Zealand by 31 December 2009.

Threats:

- There are a number of factors, both specific to JB Hi-Fi and of a general nature, which may threaten the future operating and financial performance of the Group and the outcome of an investment in JB Hi-Fi. There can be no guarantee that JB Hi-Fi will achieve its stated objectives or that forward looking statements will be realised;
- The operating and financial performance of JB Hi-Fi is influenced by a variety of general economic and business conditions, levels of consumer spending, inflation, interest rates and exchange rates, access to debt and capital markets, and government fiscal, monetary and regulatory policies. A prolonged deterioration in general economic conditions, including an increase in interest rates or a decrease in consumer and business demand, may have an adverse impact on the Group's business or financial condition;
- Competition – the markets in which JB Hi-Fi operates are fragmented and competitive;
- The Group's financial performance or operating margins could be adversely affected if the actions of competitors or potential competitors become more effective, or if new competitors enter the market, and JB Hi-Fi is unable to counter these actions;
- Leasing arrangements – the ability to identify suitable sites and negotiate suitable leasing terms is key to the Group's growth plans. Further, management's ability to renegotiate acceptable lease terms for existing stores where leases are due to expire is vital to ongoing profitability; and
- Operating costs – the Group's ability to consistently offer low prices and operate profitably is dependent on a combination of the scalability of its operations, relatively high stock turns and low cost operating structure. It is important that the Group maintain these drivers of profitability.

B. REVIEW OF OPERATIONS

Sales and earnings performance:

- The Group recorded a full year net profit after tax of \$94,438,000 for the 12 months ending 30 June 2009, up 45.1% on the previous corresponding period of \$65,085,000.
- Total sales were up 27.3% to \$2,327,266,000 and comparable store growth was 11.5% (Australia: 11.9%, New Zealand 8.8%).
- Gross margin was 21.6% for the period, down 22 bps from the previous period.
- EBIT was \$141,967,000, up from \$102,250,000 last year and the resulting EBIT margin was 6.10%, up from 5.59% for same period last year.
- Cost of doing business continued to improve at 14.54% for the period, decreasing 77 bps from 15.31% for the same period last year.
- The Group opened 19 new stores (JB Hi-Fi: 16, CA: 3) and closed 1 Hill & Stewart store during the 2009 financial year.

Material developments:

- There were no material developments during the 2009 financial year.

Overall returns to shareholders:

- Refer to details of dividends paid and declared by the Company in the section below.

C. DETAILS OF INVESTMENTS FOR FUTURE PERFORMANCE

- Investments of \$44,444,000 were made during the financial year in capital expenditure projects. The majority of this capital expenditure related to the 19 new stores opened during the period. These stores are anticipated to contribute towards solid earnings growth in the 2010 financial year.

D. REVIEW OF FINANCIAL CONDITIONS

- The capital structure of the Group has remained stable during the period. The increase in equity during the period related to ordinary shares issued to employees under the Employee Share Option Plan. The Group's net debt decreased from \$124,517,000 to \$53,568,000.
- The key financial covenants included in the Company's financing facilities are the leverage/gearing ratio and fixed charges cover.
- The Group had total interest bearing liabilities of \$90,000,000 at the end of the period. The Group has total debt facilities of \$208,046,000, split between a senior debt facility of \$145,000,000, expiring in December 2011, and an overdraft facility of \$63,046,000. The overdraft facility is renewable annually and has an additional seasonal bank overdraft facility of \$25,000,000 in February to April.

E. RISK MANAGEMENT AND CORPORATE GOVERNANCE PRACTICES

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

Changes in state of affairs

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

Subsequent events

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

Future developments

Disclosure of information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Accordingly, this information has not been disclosed in this report.

Environmental regulations

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

Dividends

In respect of the financial year ended 30 June 2008, as detailed in the directors' report for that financial year, an interim dividend of 10.0 cents per share and a final dividend of 16.0 cents per share, both franked to 100% at 30% corporate income tax rate, was paid to the holders of fully paid ordinary shares on 19 March 2008 and 16 September 2008 respectively.

In respect of the financial year ended 30 June 2009, an interim dividend of 15.0 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 10 March 2009.

In respect of the financial year ended 30 June 2009, the directors have declared the payment of a final dividend of 29.0 cents per share franked to 100% at 30% corporate income tax rate, to be paid to the holders of fully paid ordinary shares on 9 September 2009. This represents a payout ratio of 50% for the financial year.

Indemnification of officers and auditors

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

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 13 Board meetings, 4 Remuneration Committee meetings and 5 Audit and Risk Management committee meetings were held.

| Directors | Board of Directors | | Remuneration Committee | | Audit and Risk Management Committee | |
|--------------|--------------------|----------|------------------------|----------|-------------------------------------|----------|
| | Held | Attended | Held | Attended | Held | Attended |
| P. Elliott | 13 | 13 | 4 | 4 | – | – |
| J. King | 13 | 13 | – | – | 5 | 5 |
| G. Levin | 13 | 13 | – | – | 5 | 5 |
| W. Fraser | 13 | 13 | 4 | 4 | – | – |
| G. Richards | 13 | 13 | – | – | 5 | 5 |
| R. Uechtritz | 13 | 11 | 4 | 4 | – | – |
| T. Smart | 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 – direct number | Fully paid ordinary shares – indirect number | Executive share options – direct number | Executive share options – indirect number |
|-----------------------------|--|--|---|---|
| P. Elliott | 238,332 | 11,400 | – | – |
| J. King | – | 32,258 | – | – |
| G. Levin | 30,000 | – | – | – |
| W. Fraser | – | 6,451 | – | – |
| G. Richards | – | 23,000 | – | – |
| R. Uechtritz ⁽ⁱ⁾ | 2,000,000 | – | 627,315 | – |
| T. Smart ⁽ⁱ⁾ | 1,531,157 | – | 440,606 | – |

(i) Excludes any options that may be approved by the Board in August 2009. The issue of these options is also subject to shareholder approval at the Company's Annual General Meeting in October 2009.

Remuneration report (audited)

Details of key management personnel

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

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

The highest remunerated Company and Group executives and management for the 2009 financial year were:

| | |
|------------------------|--|
| R. Uechtritz | Chief Executive Officer and Executive Director |
| T. Smart | Chief Operating Officer and Executive Director |
| R. Murray | Chief Financial Officer |
| S. Browning | Marketing Director |
| S. Duff ⁽ⁱ⁾ | General Manager – Commercial |

(i) Group management

Note: F. Garonzi, a Group Executive in the 2008 financial year, retired in August 2008.

Remuneration policy for directors and executives

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

Non-executive director remuneration

The overriding objective of JB Hi-Fi Remuneration Policies with regard to non-executive directors is to ensure the company is able to attract and retain non-executive directors with the skills and experience to ensure the Board is able to discharge its oversight and governance responsibilities in an effective and diligent manner.

With regard to the setting of non-executive director's remuneration the Company seeks to ensure director fees are at or about the 50th percentile of its relevant peer group. The Remuneration Committee received formal advice from an independent remuneration consultant in determining the appropriate director fees in October 2007. In preparation for the Annual General Meeting in October 2009, the Remuneration Committee will undertake its bi-annual review of non-executive director's fees. The Committee will obtain relevant benchmark data of appropriate fees for non-executive directors in companies of similar size (sales, earnings, market capitalisation etc.) and if considered appropriate will receive further guidance from an independent remuneration consultant.

The remuneration package for the 2009 financial year for non-executive directors was \$90,000 per annum and \$195,000 per annum for the Chairperson. In addition, non-executive directors (excluding the Chairperson) receive fees of \$5,000 per annum, per Board committee to which they are appointed, except the Chairperson of the Audit and Risk Management Committee who receives fees of \$10,000 per annum. The remuneration for the 2008 financial year, effective 1 November 2007, for non-executive directors was \$90,000 per annum and \$195,000 per annum for the Chairperson.

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

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

Group Director and Executive Remuneration

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

With regard to the setting of Group executive remuneration, the Company seeks to ensure remuneration packages are set at or about the 75th percentile, inclusive of full performance related payments. The Committee then considers current market conventions with regard to the splits between fixed, short-term and long-term incentive elements. The Remuneration Committee received formal advice from an independent remuneration consultant in determining the appropriate remuneration packages for the 2008 and 2010 financial years. In regard to the 2009 financial year, internal benchmarking analysis was undertaken as part of the annual executive remuneration reviews.

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

| Elements of remuneration | Proportion of maximum total remuneration package |
|--------------------------|--|
| Fixed | 40% to 50% |
| Short-term Incentives | 30% to 40% |
| Long-term Incentives | 20% to 25% |

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

| Elements of remuneration | Summary of performance condition |
|--|---|
| Fixed Remuneration <ul style="list-style-type: none"> Base salary packages include base salary, motor vehicle allowances and superannuation | No elements are dependent on performance conditions. |
| Short-term Incentive <ul style="list-style-type: none"> Cash bonus | Under the Group's short-term incentive program, Group executive directors and executives annual cash bonus payments are based on performance against <ol style="list-style-type: none"> annual budgets; business plans; and other relevant qualitative objectives such as corporate governance, investor relations, succession planning and human capital development. |

| Elements of remuneration | Summary of performance condition | | | | | | | | | | | | | | | | | | | | |
|---|---|------------------------|------------------------------|------------------------|------------------------------|-------------------|-----------------------------------|-----|------|------------------|--------------------------------|-----|------|------------------|--------------------------------|-----|------|----------------------------------|--|-----|------|
| Short-term Incentive <ul style="list-style-type: none"> • Cash bonus (cont.) | <p>The Group undertakes a rigorous and detailed annual planning and budgeting process. The Remuneration Committee, in considering the short-term performance of Group executive directors and executives, considers the most relevant short-term performance conditions to be achieving or exceeding annual budgets, business plans and relevant qualitative objectives. Since listing, the management team has met or exceeded its annual targets and as a result, the Board has not had to consider other factors that may have been relevant in determining whether an executive would still be entitled to a proportion of their annual cash bonus.</p> <p>2009 short-term incentive elements and the Group Executives performance against those elements are detailed in the following table:</p> <table border="1" data-bbox="469 595 1359 882"> <thead> <tr> <th><i>Element</i></th> <th><i>Criteria</i></th> <th><i>Target achieved</i></th> <th><i>% of Maximum STI paid</i></th> </tr> </thead> <tbody> <tr> <td>Base ST incentive</td> <td>Achievement of budgeted 2009 NPAT</td> <td>Yes</td> <td>100%</td> </tr> <tr> <td>Stretch Target 1</td> <td>Exceeding budgeted NPAT by 10%</td> <td>Yes</td> <td>100%</td> </tr> <tr> <td>Stretch Target 2</td> <td>Exceeding budgeted NPAT by 14%</td> <td>Yes</td> <td>100%</td> </tr> <tr> <td>Qualitative Bonus ⁽ⁱ⁾</td> <td>Relevant qualitative objectives such as corporate governance, investor relations, succession planning and human capital development.</td> <td>Yes</td> <td>100%</td> </tr> </tbody> </table> <p>(i) Only the Chief Executive Officer's short-term incentive package includes a qualitative element</p> | <i>Element</i> | <i>Criteria</i> | <i>Target achieved</i> | <i>% of Maximum STI paid</i> | Base ST incentive | Achievement of budgeted 2009 NPAT | Yes | 100% | Stretch Target 1 | Exceeding budgeted NPAT by 10% | Yes | 100% | Stretch Target 2 | Exceeding budgeted NPAT by 14% | Yes | 100% | Qualitative Bonus ⁽ⁱ⁾ | Relevant qualitative objectives such as corporate governance, investor relations, succession planning and human capital development. | Yes | 100% |
| <i>Element</i> | <i>Criteria</i> | <i>Target achieved</i> | <i>% of Maximum STI paid</i> | | | | | | | | | | | | | | | | | | |
| Base ST incentive | Achievement of budgeted 2009 NPAT | Yes | 100% | | | | | | | | | | | | | | | | | | |
| Stretch Target 1 | Exceeding budgeted NPAT by 10% | Yes | 100% | | | | | | | | | | | | | | | | | | |
| Stretch Target 2 | Exceeding budgeted NPAT by 14% | Yes | 100% | | | | | | | | | | | | | | | | | | |
| Qualitative Bonus ⁽ⁱ⁾ | Relevant qualitative objectives such as corporate governance, investor relations, succession planning and human capital development. | Yes | 100% | | | | | | | | | | | | | | | | | | |
| Long-term Incentive <ul style="list-style-type: none"> • Equity options | <p>Options under the Executive Share Option Plan are issued to Group executive directors and executives as follows:</p> <p>All current options issued to Group executive directors and executives under the Group's long-term incentive program include a performance hurdle requiring compound annual EPS growth of between 10% and 20% per annum. The Remuneration Committee considers this equity performance linked remuneration structure is effective in aligning the long-term interests of Group executive directors, executives and shareholders. EPS hurdles are tested each year, to the extent a hurdle is not achieved in one year, the hurdle is reassessed in each subsequent year, until the earlier of the hurdle is achieved or the option expires.</p> <p>It is anticipated that all long-term incentives issued to Group executive directors and executives in subsequent financial periods will continue to be subject to appropriate performance conditions that ensure an alignment with the long-term interests of shareholders.</p> <p>In regard to 2009, Group executive directors and executives have achieved all EPS hurdles in relation to options which have or will vest in relation to the 2009 period.</p> | | | | | | | | | | | | | | | | | | | | |

Group Management Remuneration

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

The remuneration packages of Group management are set by the Group executives and only considered by exception by the Remuneration Committee. Formal peer group analysis of remuneration packages is not undertaken, rather general knowledge of remuneration packages internally and externally is considered. If required, the assistance of an independent remuneration consultant would be obtained.

| Elements of remuneration | Summary of performance condition |
|--|--|
| Fixed Remuneration <ul style="list-style-type: none"> Base salary packages include base salary, motor vehicle allowances and superannuation | No elements are dependent on performance conditions. |
| Short-term Incentive <ul style="list-style-type: none"> Cash bonus | The General Manager – Commercial's short-term incentive package is uncapped and based on a 25% share of the annual growth in the EBIT of the Group's Commercial division. This agreement is for three years and commenced on 1 July 2008 being the date of acquisition of Rocket Replacements Pty Ltd. The short-term incentive package, structure and KPI's will be reviewed at the end of this term. At the election of a group manager, a portion of this annual short term incentive can be allocated towards the purchase of share options under the Executive Share Option Plan. |
| Long-term Incentive <ul style="list-style-type: none"> Equity options | Options under the Executive Share Option Plan are issued to Group management as follows: Management are issued options under this program as part of the Group's long-term incentive program, however their vesting is not subject to any performance conditions. This element of remuneration is not subject to performance conditions as it was not considered necessary or appropriate to attach conditions to the long-term incentive, as it would diminish the effectiveness of this element in motivating and retaining key members of the management team. |

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

The Board's current policy does not allow Group executives to limit their exposure to risk in relation to their equity options without prior consultation and approval of the Board. Group executives are annually required to sign a declaration that they are in compliance with all elements of the JB Hi-Fi Share Trading Policy and have not entered into any arrangements to limit their exposure to the risk in relation to their equity options in the Company. These declarations have been received in relation to the 2009 financial year from all Group Executives.

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

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

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

| Key Management Personnel | Contract Term | | Notice Period Employee | Company Notice Period and any Contractual Termination Payments |
|--------------------------|---------------|---------|------------------------|--|
| | Fixed | Rolling | | |
| R. Uechtritz | – | ✓ | 4 weeks | No specific reference in employment letter |
| T. Smart | – | ✓ | 4 weeks | No specific reference in employment letter |
| R. Murray | – | ✓ | 4 weeks | Minimum 6 months current salary |
| S. Browning | – | ✓ | 4 weeks | No specific reference in employment letter |
| S. Duff | – | ✓ | 4 weeks | No specific reference in employment letter |

Relationship between financial performance and variable remuneration

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

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

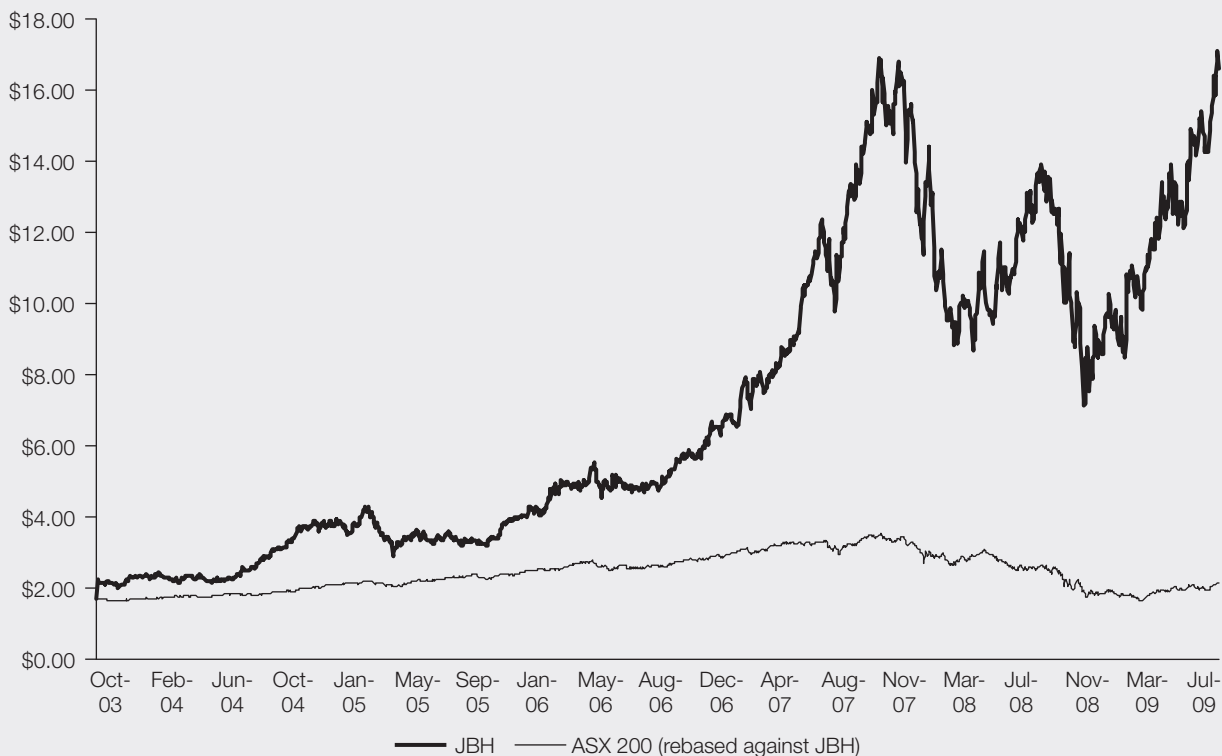
| | FY05 | FY06 | FY07 | FY08 | FY09 | Movement | | | | |
|---|--------------|--------------|----------------|----------------|----------------|----------|------|------|------|------|
| | FY05 | FY06 | FY07 | FY08 | FY09 | FY05 | FY06 | FY07 | FY08 | FY09 |
| 1. Consolidated sales (\$m) | 693.9 | 945.8 | 1,281.8 | 1,828.6 | 2,327.3 | 53% | 36% | 36% | 43% | 27% |
| 2. Consolidated profit attributable to members of the parent entity (\$m) | 20.7 | 25.8 | 40.4 | 65.1 | 94.4 | 50% | 32% | 57% | 61% | 45% |
| 3. Basic earnings per share (cents) | 20.2 | 25.0 | 38.8 | 61.8 | 88.3 | 41% | 32% | 55% | 59% | 43% |
| 4. Shareholder value created: | | | | | | | | | | |
| Company share price at the end of the reporting period (\$) | 3.56 | 5.08 | 10.82 | 10.46 | 15.40 | 55% | 43% | 113% | (3%) | 47% |
| Market capitalisation (\$m) | 366.0 | 525.6 | 1,132.1 | 1,107.6 | 1,651.6 | 55% | 44% | 115% | (2%) | 49% |
| Enterprise value ⁽ⁱ⁾ (\$m) | 442.0 | 621.7 | 1,226.8 | 1,232.1 | 1,705.2 | 68% | 41% | 97% | 0.4% | 38% |
| Movement in enterprise value during the financial year (\$m) | 179.2 | 179.7 | 605.1 | 5.3 | 473.1 | | | | | |
| Dividends paid to shareholders during the financial year (\$m) | 7.4 | 7.4 | 9.4 | 16.9 | 33.2 | | | | | |
| Shareholder value created⁽ⁱⁱ⁾ | | | | | | | | | | |
| – per annum (\$m) | 186.6 | 187.1 | 614.5 | 22.2 | 506.3 | | | | | |
| – cumulative (\$m) | 251.4 | 438.5 | 1,053.0 | 1,075.2 | 1,581.5 | | | | | |

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

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

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

The following graph plots the JBH closing share price and the ASX 200 on a daily basis since listing on the ASX.



Key management personnel compensation

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

| | Consolidated | | Company | |
|------------------------------|------------------|------------------|----------------|----------------|
| | 2009 \$ | 2008 \$ | 2009 \$ | 2008 \$ |
| Short-term employee benefits | 5,514,411 | 5,019,188 | 532,110 | 453,867 |
| Post-employment benefits | 295,256 | 272,689 | 47,890 | 40,848 |
| Share-based payments | 1,485,848 | 975,441 | - | - |
| | 7,295,515 | 6,267,318 | 580,000 | 494,715 |

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

| 2009 | Short-term employee benefits | | | | Post-employment benefits | | Share-based payments | Performance based | | |
|--|------------------------------|-----------------------------|--------------------|----------------|--------------------------|-------------|--------------------------------|-------------------|----------|---------|
| | Salary & fees \$ | Bonus ⁽ⁱⁱ⁾ \$ | Non-monetary \$ | Other \$ | Super-annuation \$ | Other \$ | Options ⁽ⁱⁱⁱ⁾ \$ | Total \$ | Yes % | No % |
| Non-executive directors | | | | | | | | | | |
| P. Elliott | 178,899 | - | - | - | 16,101 | - | - | 195,000 | - | 100% |
| J. King | 91,743 | - | - | - | 8,257 | - | - | 100,000 | - | 100% |
| G. Levin | 87,156 | - | - | - | 7,844 | - | - | 95,000 | - | 100% |
| W. Fraser | 87,156 | - | - | - | 7,844 | - | - | 95,000 | - | 100% |
| G. Richards | 87,156 | - | - | - | 7,844 | - | - | 95,000 | - | 100% |
| | 532,110 | - | - | - | 47,890 | - | - | 580,000 | | |
| Group Executives and Management | | | | | | | | | | |
| R. Uechtritz | 1,038,264 | 1,164,807 | - | 39,462 | 114,209 | - | 594,067 ⁽ⁱ⁾ | 2,950,809 | 59.6% | 40.4% |
| T. Smart | 517,028 | 553,430 | - | 29,314 | 56,873 | - | 402,946 ⁽ⁱ⁾ | 1,559,591 | 61.3% | 38.7% |
| R. Murray | 321,297 | 292,014 | - | 28,187 | 28,917 | - | 216,857 ⁽ⁱ⁾ | 887,272 | 57.4% | 42.6% |
| S. Browning | 321,297 | 267,014 | - | 28,187 | 28,917 | - | 216,854 ⁽ⁱ⁾ | 862,269 | 56.1% | 43.9% |
| S. Duff ^(v) | 205,000 | 152,000 | - | 25,000 | 18,450 | - | 55,124 ⁽ⁱ⁾ | 455,574 | 45.5% | 54.5% |
| | 2,402,886 | 2,429,265 | - | 150,150 | 247,366 | - | 1,485,848 | 6,715,515 | | |
| | 2,934,996 | 2,429,265 | - | 150,150 | 295,256 | - | 1,485,848 | 7,295,515 | | |

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

| | Short-term employee benefits | | | | Post-employment benefits | | Share-based payments | Performance based | | |
|--------------------------------|------------------------------|----------------------------|--------------------|----------------|--------------------------|--------------|-------------------------------|-------------------|----------|---------|
| | Salary & fees \$ | Bonus ^(v) \$ | Non-monetary \$ | Other \$ | Super-annuation \$ | Other \$ | Options ^(vi) \$ | Total \$ | Yes % | No % |
| 2008 | | | | | | | | | | |
| Non-executive directors | | | | | | | | | | |
| P. Elliott | 142,599 | - | - | - | 12,834 | - | - | 155,433 | - | 100% |
| J. King | 101,162 | - | - | - | 9,105 | - | - | 110,267 | - | 100% |
| G. Levin | 81,437 | - | - | - | 7,329 | - | - | 88,766 | - | 100% |
| W. Fraser | 81,437 | - | - | - | 7,329 | - | - | 88,766 | - | 100% |
| G. Richards | 47,232 | - | - | - | 4,251 | - | - | 51,483 | - | 100% |
| | 453,867 | - | - | - | 40,848 | - | - | 494,715 | | |
| Group Executives | | | | | | | | | | |
| R. Uechtritz | 907,207 | 1,050,000 ^(vi) | - | 35,000 | 99,793 | 8,000 | 366,456 ^(vii) | 2,466,456 | 57.4% | 42.6% |
| T. Smart | 455,400 | 475,000 | - | 26,000 | 50,094 | - | 257,350 ^(vii) | 1,263,844 | 57.9% | 42.1% |
| F. Garonzi | 255,714 | 240,000 | - | 25,000 | 23,014 | - | 59,778 ^(vii) | 603,506 | 49.7% | 50.3% |
| R. Murray | 283,000 | 240,000 | - | 25,000 | 25,470 | - | 144,797 ^(vii) | 718,267 | 53.6% | 46.4% |
| S. Browning | 283,000 | 240,000 | 25,000 | - | 25,470 | - | 147,060 ^(vii) | 720,530 | 53.7% | 46.3% |
| | 2,184,321 | 2,245,000 | 25,000 | 111,000 | 223,841 | 8,000 | 975,441 | 5,772,603 | | |
| | 2,638,188 | 2,245,000 | 25,000 | 111,000 | 264,689 | 8,000 | 975,441 | 6,267,318 | | |

(i) Series #6, 10, 17, 24, 25, 35 and 36

(ii) Series #10, 14, 21 and 22

(iii) Series #5, 9, 10, 14, 21, 22, 33 and 34

(iv) Series #8, 10, 14, 21, 22, 33 and 34

(v) Performance based.

(vi) 79% vested as at balance date and 100% vested as at the date of this report (none were forfeited).

(vii) Vesting of option series #5, 6, 8 and 9 was not subject to any performance conditions.

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

Share options

Executive and employee share option plan

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

Shares under option

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

| Option series | Number of shares under option | Class of share | Grant date (GD) | Share Price at GD | Expiry date | Exercise price \$ | Expected volatility | Dividend yield at GD | Risk-free interest rate at GD | Fair value at GD \$ |
|---------------|-------------------------------|----------------|-----------------|-------------------|-------------|-------------------|---------------------|----------------------|-------------------------------|---------------------|
| 13 | 16,667 | Ordinary | 12/04/05 | 3.52 | 12/04/10 | 3.61 | 25.7% | 2.0% | 5.54% | 0.92 |
| 14 | 211,175 | Ordinary | 22/07/05 | 3.38 | 22/07/10 | 3.33 | 28.4% | 2.1% | 5.29% | 0.81 |
| 15 | 42,000 | Ordinary | 08/08/05 | 3.44 | 08/08/10 | 3.37 | 28.3% | 2.1% | 5.34% | 0.83 |
| 16 | 16,667 | Ordinary | 26/09/05 | 3.39 | 26/09/10 | 3.29 | 28.3% | 2.1% | 5.25% | 0.83 |
| 17 | 67,712 | Ordinary | 22/07/05 | 3.38 | 22/07/10 | 3.33 | 28.4% | 2.1% | 5.29% | 0.81 |
| 18 | 50,000 | Ordinary | 03/04/06 | 4.94 | 03/04/11 | 4.89 | 28.3% | 1.5% | 5.37% | 1.25 |
| 19 | 33,334 | Ordinary | 26/06/06 | 4.85 | 26/06/11 | 4.98 | 29.4% | 1.5% | 5.85% | 1.21 |

Shares under option (cont.)

| Option series | Number of shares under option | Class of share | Grant date (GD) | Share Price at GD | Expiry date | Exercise price \$ | Expected volatility | Dividend yield at GD | Risk-free interest rate at GD | Fair value at GD \$ |
|---------------|-------------------------------|----------------|-----------------|-------------------|-------------|-------------------|---------------------|----------------------|-------------------------------|---------------------|
| 20 | 213,338 | Ordinary | 15/08/06 | 4.79 | 15/08/11 | 4.81 | 29.5% | 1.6% | 5.98% | 1.24 |
| 21 | 112,001 | Ordinary | 15/08/06 | 4.79 | 15/08/11 | 4.81 | 29.5% | 1.6% | 5.98% | 1.24 |
| 22 | 48,000 | Ordinary | 15/08/06 | 4.79 | 15/08/11 | 4.81 | 29.5% | 1.6% | 5.98% | 1.24 |
| 23 | 50,000 | Ordinary | 13/09/06 | 4.81 | 13/09/11 | 4.81 | 29.4% | 1.6% | 5.74% | 1.24 |
| 24 | 163,333 | Ordinary | 15/08/06 | 4.79 | 15/08/11 | 4.81 | 29.5% | 1.6% | 5.98% | 1.24 |
| 25 | 70,000 | Ordinary | 15/08/06 | 4.79 | 15/08/11 | 4.81 | 29.5% | 1.6% | 5.98% | 1.24 |
| 26 | 20,000 | Ordinary | 29/11/06 | 5.82 | 29/11/11 | 5.73 | 29.2% | 1.4% | 5.75% | 1.56 |
| 27 | 50,000 | Ordinary | 28/12/06 | 6.55 | 28/12/11 | 6.48 | 29.3% | 1.2% | 6.04% | 1.79 |
| 28 | 50,000 | Ordinary | 19/04/07 | 8.05 | 19/04/12 | 8.01 | 29.4% | 1.1% | 6.11% | 2.21 |
| 29 | 30,000 | Ordinary | 07/05/07 | 8.75 | 07/05/12 | 8.47 | 29.4% | 1.0% | 6.01% | 2.51 |
| 30 | 60,000 | Ordinary | 04/07/07 | 11.36 | 04/07/12 | 10.90 | 29.8% | 1.1% | 6.32% | 3.37 |
| 31 | 30,000 | Ordinary | 01/08/07 | 11.20 | 01/08/12 | 11.25 | 30.0% | 1.1% | 6.16% | 3.10 |
| 32 | 360,000 | Ordinary | 20/08/07 | 11.02 | 20/08/12 | 11.00 | 31.2% | 1.1% | 6.05% | 3.15 |
| 33 | 118,754 | Ordinary | 20/08/07 | 11.02 | 20/08/12 | 11.00 | 31.2% | 1.1% | 6.05% | 3.15 |
| 34 | 50,896 | Ordinary | 20/08/07 | 11.02 | 20/08/12 | 11.00 | 31.2% | 1.1% | 6.05% | 3.15 |
| 35 | 278,332 | Ordinary | 20/08/07 | 11.02 | 20/08/12 | 11.00 | 31.2% | 1.1% | 6.05% | 3.15 |
| 36 | 119,286 | Ordinary | 20/08/07 | 11.02 | 20/08/12 | 11.00 | 31.2% | 1.1% | 6.05% | 3.15 |
| 37 | 30,000 | Ordinary | 19/02/08 | 10.64 | 19/02/13 | 10.90 | 34.8% | 2.2% | 6.69% | 2.98 |
| 38 | 50,000 | Ordinary | 07/04/08 | 10.01 | 07/04/13 | 9.54 | 35.9% | 2.3% | 6.21% | 3.05 |
| 39 | 30,000 | Ordinary | 05/06/08 | 9.75 | 05/06/13 | 9.66 | 36.8% | 2.4% | 6.60% | 2.91 |
| 40 | 80,000 | Ordinary | 23/07/08 | 12.16 | 23/07/13 | 11.76 | 37.6% | 1.9% | 6.48% | 3.90 |
| 41 | 500,000 | Ordinary | 26/08/08 | 13.52 | 26/08/13 | 12.98 | 37.6% | 2.0% | 5.72% | 3.86 |
| 42 | 110,286 | Ordinary | 26/08/08 | 13.52 | 26/08/13 | 12.98 | 37.6% | 2.0% | 5.72% | 3.86 |
| 43 | 47,264 | Ordinary | 26/08/08 | 13.52 | 26/08/13 | 12.98 | 37.6% | 2.0% | 5.72% | 3.86 |
| 44 | 258,480 | Ordinary | 26/08/08 | 13.52 | 26/08/13 | 12.98 | 37.6% | 2.0% | 5.72% | 3.86 |
| 45 | 110,778 | Ordinary | 26/08/08 | 13.52 | 26/08/13 | 12.98 | 37.6% | 2.0% | 5.72% | 3.86 |
| 46 | 120,000 | Ordinary | 01/04/09 | 11.62 | 01/04/14 | 11.62 | 44.9% | 2.7% | 3.89% | 3.57 |
| 47 | 443,000 | Ordinary | 29/06/09 | 15.06 | 29/06/14 | 14.92 | 46.5% | 2.9% | 5.19% | 4.86 |
| 48 | 63,459 | Ordinary | 29/06/09 | 15.06 | 29/06/14 | 14.92 | 46.5% | 2.9% | 5.19% | 4.86 |
| 49 | 27,196 | Ordinary | 29/06/09 | 15.06 | 29/06/14 | 14.92 | 46.5% | 2.9% | 5.19% | 4.86 |
| <hr/> | | | | | | | | | | |
| | 4,131,958 | | | | | | | | | |

The holders of these options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme. The weighted average fair value of the share options granted during the financial year is \$4.15 (2008: \$3.15). Options were valued using the Black-Scholes model.

Volatility is based on:

- Series 10 to 13, expected volatility is based on the daily closing share price for the 12 months preceding the issues of the series.
- Series 14 to 29, expected volatility is based on the daily closing share price since listing.
- Series 30 and onwards, expected volatility is based on the daily closing share price for the 3.44 years preceding the issues of the series.

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

Shares under option (cont.)

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

2009

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

Shares under option (cont.)

2008

| Option Series | Grant date | Exercise date | Number exercised | Number of shares issued | Class of shares | Amount paid per share \$ | Amount unpaid per share \$ | Share price at exercise date \$ |
|---------------|------------|---------------|------------------|-------------------------|-----------------|--------------------------|----------------------------|---------------------------------|
| 5 | 18/09/03 | 30/10/07 | 37,333 | 37,333 | Ordinary | 1.25 | – | 16.88 |
| 6 | 18/09/03 | 30/10/07 | 195,000 | 195,000 | Ordinary | 1.45 | – | 16.88 |
| 7 | 29/01/04 | 15/08/07 | 8,606 | 8,606 | Ordinary | 2.32 | – | 11.10 |
| 8 | 23/03/04 | 14/08/07 | 50,000 | 50,000 | Ordinary | 2.23 | – | 11.35 |
| 9 | 28/04/04 | 14/08/07 | 60,333 | 60,333 | Ordinary | 2.25 | – | 11.35 |
| 10 | 23/07/04 | 14/08/07 | 204,916 | 204,916 | Ordinary | 2.29 | – | 11.35 |
| 10 | 23/07/04 | 15/08/07 | 117,678 | 117,678 | Ordinary | 2.29 | – | 11.10 |
| 10 | 23/07/04 | 23/08/07 | 176,583 | 176,583 | Ordinary | 2.29 | – | 11.70 |
| 10 | 23/07/04 | 31/08/07 | 99,958 | 99,958 | Ordinary | 2.29 | – | 12.50 |
| 10 | 23/07/04 | 30/10/07 | 7,334 | 7,334 | Ordinary | 2.29 | – | 16.88 |
| 10 | 23/07/04 | 12/02/08 | 6,666 | 6,666 | Ordinary | 2.29 | – | 11.59 |
| 10 | 23/07/04 | 07/03/08 | 6,666 | 6,666 | Ordinary | 2.29 | – | 9.51 |
| 11 | 27/10/04 | 12/02/08 | 16,667 | 16,667 | Ordinary | 2.29 | – | 11.59 |
| 12 | 28/01/05 | 12/02/08 | 16,667 | 16,667 | Ordinary | 3.68 | – | 11.59 |
| 13 | 12/04/05 | 14/08/07 | 16,666 | 16,666 | Ordinary | 3.61 | – | 11.35 |
| 14 | 22/07/05 | 14/08/07 | 97,450 | 97,450 | Ordinary | 3.33 | – | 11.35 |
| 14 | 22/07/05 | 15/08/07 | 3,334 | 3,334 | Ordinary | 3.33 | – | 11.10 |
| 14 | 22/07/05 | 23/08/07 | 3,334 | 3,334 | Ordinary | 3.33 | – | 11.70 |
| 14 | 22/07/05 | 31/08/07 | 32,058 | 32,058 | Ordinary | 3.33 | – | 12.50 |
| 14 | 22/07/05 | 30/10/07 | 1,667 | 1,667 | Ordinary | 3.33 | – | 16.88 |
| 14 | 22/07/05 | 12/02/08 | 6,667 | 6,667 | Ordinary | 3.33 | – | 11.59 |
| 14 | 22/07/05 | 07/03/08 | 6,666 | 6,666 | Ordinary | 3.33 | – | 9.51 |
| 16 | 26/09/05 | 30/10/07 | 16,666 | 16,666 | Ordinary | 3.29 | – | 16.88 |
| 17 | 22/07/05 | 15/08/07 | 33,856 | 33,856 | Ordinary | 3.33 | – | 11.10 |
| 17 | 22/07/05 | 23/08/07 | 33,856 | 33,856 | Ordinary | 3.33 | – | 11.70 |
| | | | 1,256,627 | 1,256,627 | | | | |

Long-term incentive

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

| Option Series | Grant date | Performance condition – cumulative EPS growth per annum | Date for testing performance condition | Relevant financial year | Vested subject to performance condition | 100% vested due to achievement of performance condition |
|---------------|------------|---|--|-------------------------|---|---|
| 14.3 | 22/07/05 | 10.0% | 22/07/09 | 2009 | Yes | Yes |
| 17.3 | 22/07/05 | 10.0% | 22/07/09 | 2009 | Yes | Yes |
| 21.2 | 15/08/06 | 10.0% | 15/08/09 | 2009 | n/a | n/a |
| 21.3 | 15/08/06 | 10.0% | 15/08/10 | 2010 | n/a | n/a |
| 22.2 | 15/08/06 | 15.0% | 15/08/09 | 2009 | n/a | n/a |
| 22.3 | 15/08/06 | 15.0% | 15/08/10 | 2010 | n/a | n/a |
| 24.2 | 15/08/06 | 10.0% | 15/08/09 | 2009 | n/a | n/a |
| 24.3 | 15/08/06 | 10.0% | 15/08/10 | 2010 | n/a | n/a |

Long-term incentive (cont.)

| Option Series | Grant date | Performance condition – cumulative EPS growth per annum | Date for testing performance condition | Relevant financial year | Vested subject to performance condition | 100% vested due to achievement of performance condition |
|---------------|------------|---|--|-------------------------|---|---|
| 25.2 | 15/08/06 | 15.0% | 15/08/09 | 2009 | n/a | n/a |
| 25.3 | 15/08/06 | 15.0% | 15/08/10 | 2010 | n/a | n/a |
| 33.1 | 20/08/07 | 15.0% | 20/08/09 | 2009 | n/a | n/a |
| 33.2 | 20/08/07 | 15.0% | 20/08/10 | 2010 | n/a | n/a |
| 33.3 | 20/08/07 | 15.0% | 20/08/11 | 2011 | n/a | n/a |
| 34.1 | 20/08/07 | 20.0% | 20/08/09 | 2009 | n/a | n/a |
| 34.2 | 20/08/07 | 20.0% | 20/08/10 | 2010 | n/a | n/a |
| 34.3 | 20/08/07 | 20.0% | 20/08/11 | 2011 | n/a | n/a |
| 35.1 | 20/08/07 | 15.0% | 20/08/09 | 2009 | n/a | n/a |
| 35.2 | 20/08/07 | 15.0% | 20/08/10 | 2010 | n/a | n/a |
| 35.3 | 20/08/07 | 15.0% | 20/08/11 | 2011 | n/a | n/a |
| 36.1 | 20/08/07 | 20.0% | 20/08/09 | 2009 | n/a | n/a |
| 36.2 | 20/08/07 | 20.0% | 20/08/10 | 2010 | n/a | n/a |
| 36.3 | 20/08/07 | 20.0% | 20/08/11 | 2011 | n/a | n/a |
| 42.1 | 26/08/08 | 15.0% | 26/08/10 | 2010 | n/a | n/a |
| 42.2 | 26/08/08 | 15.0% | 26/08/11 | 2011 | n/a | n/a |
| 42.3 | 26/08/08 | 15.0% | 26/08/12 | 2012 | n/a | n/a |
| 43.1 | 26/08/08 | 20.0% | 26/08/10 | 2010 | n/a | n/a |
| 43.2 | 26/08/08 | 20.0% | 26/08/11 | 2011 | n/a | n/a |
| 43.3 | 26/08/08 | 20.0% | 26/08/12 | 2012 | n/a | n/a |
| 44.1 | 26/08/08 | 15.0% | 26/08/10 | 2010 | n/a | n/a |
| 44.2 | 26/08/08 | 15.0% | 26/08/11 | 2011 | n/a | n/a |
| 44.3 | 26/08/08 | 15.0% | 26/08/12 | 2012 | n/a | n/a |
| 45.1 | 26/08/08 | 20.0% | 26/08/10 | 2010 | n/a | n/a |
| 45.2 | 26/08/08 | 20.0% | 26/08/11 | 2011 | n/a | n/a |
| 45.3 | 26/08/08 | 20.0% | 26/08/12 | 2012 | n/a | n/a |
| 48.1 | 29/06/09 | 10.0% | 29/06/11 | 2011 | n/a | n/a |
| 48.2 | 29/06/09 | 10.0% | 29/06/12 | 2012 | n/a | n/a |
| 48.3 | 29/06/09 | 10.0% | 29/06/13 | 2013 | n/a | n/a |
| 49.1 | 29/06/09 | 15.0% | 29/06/11 | 2011 | n/a | n/a |
| 49.2 | 29/06/09 | 15.0% | 29/06/12 | 2012 | n/a | n/a |
| 49.3 | 29/06/09 | 15.0% | 29/06/13 | 2013 | n/a | n/a |

Key management personnel equity holdings

Fully paid ordinary shares of JB Hi-Fi Limited

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

(i) Group management

| 2008 | Balance at 1 July 2007 No. | Granted as compensation No. | Received on exercise of options No. | Net other change No. | Balance at 30 June 2008 No. | Balance held nominally No. |
|--------------|---|--|--|-------------------------------------|--|---|
| P. Elliott | 348,600 | - | - | (98,600) | 250,000 | 11,400 |
| J. King | 32,258 | - | - | - | 32,258 | 32,258 |
| G. Levin | 100,000 | - | - | (50,000) | 50,000 | - |
| W. Fraser | 6,451 | - | - | - | 6,451 | 6,451 |
| G. Richards | - | - | - | 23,000 | 23,000 | 23,000 |
| R. Uechtritz | 4,000,000 | - | 322,106 | (1,207,106) | 3,115,000 | - |
| T. Smart | 1,844,345 | - | 228,201 | (349,590) | 1,722,956 | - |
| F. Garonzi | 326,625 | - | 112,017 | (86,625) | 352,017 | 160,000 |
| R. Murray | 119,959 | - | 145,350 | (102,909) | 162,400 | 750 |
| S. Browning | 136,625 | - | 162,017 | (171,625) | 127,017 | - |
| | 6,914,863 | - | 969,691 | (2,043,455) | 5,841,099 | 233,859 |

Share options of JB Hi-Fi Limited

| 2009 | Balance at 1 July 2008 No. | Granted as compensation No. | Exercised No. | Balance at 30 June 2009 No. | Balance vested at 30 June 2009 No. | Options vested during year No. |
|-----------------------------|---|--|--------------------------|--|---|---|
| R. Uechtritz ⁽ⁱ⁾ | 679,533 | 221,555 | (273,773) | 627,315 | - | 273,773 |
| T. Smart ⁽ⁱ⁾ | 491,104 | 147,703 | (198,201) | 440,606 | - | 198,201 |
| R. Murray | 314,234 | 124,430 | (150,683) | 287,981 | - | 150,683 |
| S. Browning | 352,234 | 123,775 | (188,683) | 287,326 | - | 188,683 |
| S. Duff | 30,000 | 35,000 | - | 65,000 | - | - |
| | 1,867,105 | 652,463 | (811,340) | 1,708,228 | - | 811,340 |

(i) Excludes any options that may be approved by the Board in August 2009. The issue of any options to R. Uechtritz and T. Smart, both executive directors of the Company, is also subject to shareholder approval at the Company's Annual General Meeting in October 2009.

Share options of JB Hi-Fi Limited (cont.)

| 2008 | Balance at 1 July 2007 No. | Granted as compensation No. | Exercised No. | Balance at 30 June 2008 No. | Balance vested at 30 June 2008 No. | Options vested during year No. |
|-----------------------------|----------------------------------|-----------------------------------|------------------|-----------------------------------|--|--------------------------------------|
| R. Uechtritz ⁽ⁱ⁾ | 763,068 | 238,571 | (322,106) | 679,533 | – | 322,106 |
| T. Smart ⁽ⁱ⁾ | 560,258 | 159,047 | (228,201) | 491,104 | – | 228,201 |
| F. Garonzi ⁽ⁱ⁾ | 329,426 | – | (112,017) | 217,409 | – | 112,017 |
| R. Murray ⁽ⁱ⁾ | 374,759 | 84,825 | (145,350) | 314,234 | 12,000 | 157,350 |
| S. Browning ⁽ⁱ⁾ | 429,426 | 84,825 | (162,017) | 352,234 | 50,000 | 212,017 |
| | 2,456,937 | 567,268 | (969,691) | 2,054,514 | 62,000 | 1,031,691 |

(i) Excludes any options that were approved by the Board in August 2008. The issue of any options to R. Uechtritz and T. Smart, both executive directors of the Company, was also subject to shareholder approval at the Company's Annual General Meeting in October 2008.

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

During the financial year 811,340 (2008: 969,691) options were exercised by key management personnel at a weighted average exercise price of \$2.97 (2008: \$2.25) per ordinary shares in JB Hi-Fi Limited. No amounts remain unpaid on the options exercised during the financial year at year end.

Value of options issued to key management personnel

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

| | Value of options granted – at the grant date ⁽ⁱ⁾ \$ | Value of options exercised – at the exercise date ⁽ⁱⁱ⁾ \$ | Value of options lapsed – at the date of lapse \$ |
|--------------|--|--|---|
| R. Uechtritz | 855,202 | 2,616,651 | – |
| T. Smart | 570,134 | 2,020,983 | – |
| R. Murray | 525,955 | 1,458,909 | – |
| S. Browning | 522,772 | 1,852,829 | – |
| S. Duff | 150,100 | – | – |
| | 2,624,163 | 7,949,372 | – |

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

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

The following table details the options granted during the annual reporting period to the identified Company and Group key management personnel:

| | Series | Number of options granted | Grant date | Exercise price \$ | Fair value per option at Grant Date \$ | Vesting date | Expiry date | Performance condition – cumulative EPS growth per annum |
|--------------|--------|---------------------------------|------------|-------------------------|---|--------------|-------------|---|
| R. Uechtritz | 44.1 | 51,696 | 26/08/08 | 12.98 | 3.86 | 26/08/10 | 26/08/13 | 15% |
| | 44.2 | 51,696 | 26/08/08 | 12.98 | 3.86 | 26/08/11 | 26/08/13 | 15% |
| | 44.3 | 51,696 | 26/08/08 | 12.98 | 3.86 | 26/08/12 | 26/08/13 | 15% |
| | 45.1 | 22,156 | 26/08/08 | 12.98 | 3.86 | 26/08/10 | 26/08/13 | 20% |
| | 45.2 | 22,156 | 26/08/08 | 12.98 | 3.86 | 26/08/11 | 26/08/13 | 20% |
| | 45.3 | 22,155 | 26/08/08 | 12.98 | 3.86 | 26/08/12 | 26/08/13 | 20% |
| | | 221,555 | | 12.98 | 3.86 | | | |

Value of options issued to key management personnel (cont.)

| | Series | Number of options granted | Grant date | Exercise price \$ | Fair value per option at Grant Date \$ | Vesting date | Expiry date | Performance condition – cumulative EPS growth per annum |
|------------------------|--------|---------------------------|---------------|-------------------|--|--------------|-------------|---|
| T. Smart | 44.1 | 34,464 | 26/08/08 | 12.98 | 3.86 | 26/08/10 | 26/08/13 | 15% |
| | 44.2 | 34,464 | 26/08/08 | 12.98 | 3.86 | 26/08/11 | 26/08/13 | 15% |
| | 44.3 | 34,464 | 26/08/08 | 12.98 | 3.86 | 26/08/12 | 26/08/13 | 15% |
| | 45.1 | 14,771 | 26/08/08 | 12.98 | 3.86 | 26/08/10 | 26/08/13 | 20% |
| | 45.2 | 14,770 | 26/08/08 | 12.98 | 3.86 | 26/08/11 | 26/08/13 | 20% |
| | 45.3 | 14,770 | 26/08/08 | 12.98 | 3.86 | 26/08/12 | 26/08/13 | 20% |
| | | <u>147,703</u> | | <u>12.98</u> | <u>3.86</u> | | | |
| R. Murray | 42.1 | 18,381 | 26/08/08 | 12.98 | 3.86 | 26/08/10 | 26/08/13 | 15% |
| | 42.2 | 18,381 | 26/08/08 | 12.98 | 3.86 | 26/08/11 | 26/08/13 | 15% |
| | 42.3 | 18,381 | 26/08/08 | 12.98 | 3.86 | 26/08/12 | 26/08/13 | 15% |
| | 43.1 | 7,878 | 26/08/08 | 12.98 | 3.86 | 26/08/10 | 26/08/13 | 20% |
| | 43.2 | 7,877 | 26/08/08 | 12.98 | 3.86 | 26/08/11 | 26/08/13 | 20% |
| | 43.3 | 7,877 | 26/08/08 | 12.98 | 3.86 | 26/08/12 | 26/08/13 | 20% |
| | 48.1 | 10,653 | 29/06/09 | 14.92 | 4.86 | 29/06/11 | 29/06/14 | 10% |
| | 48.2 | 10,653 | 29/06/09 | 14.92 | 4.86 | 29/06/12 | 29/06/14 | 10% |
| | 48.3 | 10,653 | 29/06/09 | 14.92 | 4.86 | 29/06/13 | 29/06/14 | 10% |
| | 49.1 | 4,566 | 29/06/09 | 14.92 | 4.86 | 29/06/11 | 29/06/14 | 15% |
| | 49.2 | 4,565 | 29/06/09 | 14.92 | 4.86 | 29/06/12 | 29/06/14 | 15% |
| | 49.3 | 4,565 | 29/06/09 | 14.92 | 4.86 | 29/06/13 | 29/06/14 | 15% |
| | | <u>124,430</u> | | <u>13.69</u> | <u>4.23</u> | | | |
| S. Browning | 42.1 | 18,381 | 26/08/08 | 12.98 | 3.86 | 26/08/10 | 26/08/13 | 15% |
| | 42.2 | 18,381 | 26/08/08 | 12.98 | 3.86 | 26/08/11 | 26/08/13 | 15% |
| | 42.3 | 18,381 | 26/08/08 | 12.98 | 3.86 | 26/08/12 | 26/08/13 | 15% |
| | 43.1 | 7,878 | 26/08/08 | 12.98 | 3.86 | 26/08/10 | 26/08/13 | 20% |
| | 43.2 | 7,877 | 26/08/08 | 12.98 | 3.86 | 26/08/11 | 26/08/13 | 20% |
| | 43.3 | 7,877 | 26/08/08 | 12.98 | 3.86 | 26/08/12 | 26/08/13 | 20% |
| | 48.1 | 10,500 | 29/06/09 | 14.92 | 4.86 | 29/06/11 | 29/06/14 | 10% |
| | 48.2 | 10,500 | 29/06/09 | 14.92 | 4.86 | 29/06/12 | 29/06/14 | 10% |
| | 48.3 | 10,500 | 29/06/09 | 14.92 | 4.86 | 29/06/13 | 29/06/14 | 10% |
| | 49.1 | 4,500 | 29/06/09 | 14.92 | 4.86 | 29/06/11 | 29/06/14 | 15% |
| | 49.2 | 4,500 | 29/06/09 | 14.92 | 4.86 | 29/06/12 | 29/06/14 | 15% |
| | 49.3 | 4,500 | 29/06/09 | 14.92 | 4.86 | 29/06/13 | 29/06/14 | 15% |
| | | <u>123,775</u> | | <u>13.69</u> | <u>4.22</u> | | | |
| S. Duff ⁽ⁱ⁾ | 41.1 | 6,667 | 26/08/08 | 12.98 | 3.86 | 26/08/10 | 26/08/13 | – |
| | 41.2 | 6,667 | 26/08/08 | 12.98 | 3.86 | 26/08/11 | 26/08/13 | – |
| | 41.3 | 6,666 | 26/08/08 | 12.98 | 3.86 | 26/08/12 | 26/08/13 | – |
| | 47.1 | 5,000 | 29/06/09 | 14.92 | 4.86 | 29/06/11 | 29/06/14 | – |
| | 47.2 | 5,000 | 29/06/09 | 14.92 | 4.86 | 29/06/12 | 29/06/14 | – |
| | 47.3 | 5,000 | 29/06/09 | 14.92 | 4.86 | 29/06/13 | 29/06/14 | – |
| | | | <u>35,000</u> | | <u>13.81</u> | <u>4.29</u> | | |
| | | 652,463 | | 13.29 | 4.02 | | | |

(i) Group management

Value of options issued to key management personnel (cont.)

The following table details the options exercised during the annual reporting period by the identified Company and Group key management personnel:

| | Series | Number of options exercised | Exercise date | Number of shares issued | Exercise price \$ | Share price at Exercise Date \$ | Performance condition – cumulative EPS growth per annum | Performance condition – achieved |
|------------------------|--------|-----------------------------|---------------|-------------------------|-------------------|---------------------------------|---|----------------------------------|
| R. Uechtritz | 10.3 | 173,250 | 19/08/08 | 173,250 | 2.29 | 12.59 | 10% | Yes |
| | 17.2 | 33,856 | 19/08/08 | 33,856 | 3.33 | 12.59 | 10% | Yes |
| | 24.1 | 46,667 | 19/08/08 | 46,667 | 4.81 | 12.59 | 10% | Yes |
| | 25.1 | 20,000 | 19/08/08 | 20,000 | 4.81 | 12.59 | 15% | Yes |
| | | <u>273,773</u> | | | | | | |
| T. Smart | 10.3 | 114,345 | 22/08/08 | 114,345 | 2.29 | 13.30 | 10% | Yes |
| | 17.2 | 33,856 | 22/08/08 | 33,856 | 3.33 | 13.30 | 10% | Yes |
| | 24.1 | 35,000 | 22/08/08 | 35,000 | 4.81 | 13.30 | 10% | Yes |
| | 25.1 | 15,000 | 22/08/08 | 15,000 | 4.81 | 13.30 | 15% | Yes |
| | | <u>198,201</u> | | | | | | |
| R. Murray | 9.3 | 12,000 | 19/08/08 | 12,000 | 2.25 | 12.59 | n/a | n/a |
| | 10.3 | 86,625 | 19/08/08 | 86,625 | 2.29 | 12.59 | 10% | Yes |
| | 14.2 | 25,392 | 19/08/08 | 25,392 | 3.33 | 12.59 | 10% | Yes |
| | 21.1 | 18,666 | 19/08/08 | 18,666 | 4.81 | 12.59 | 10% | Yes |
| | 22.1 | 8,000 | 19/08/08 | 8,000 | 4.81 | 12.59 | 15% | Yes |
| | | <u>150,683</u> | | | | | | |
| S. Browning | 8.3 | 50,000 | 19/08/08 | 50,000 | 2.23 | 12.59 | n/a | n/a |
| | 10.3 | 86,625 | 19/08/08 | 86,625 | 2.29 | 12.59 | 10% | Yes |
| | 14.2 | 25,392 | 19/08/08 | 25,392 | 3.33 | 12.59 | 10% | Yes |
| | 21.1 | 18,666 | 19/08/08 | 18,666 | 4.81 | 12.59 | 10% | Yes |
| | 22.1 | 8,000 | 19/08/08 | 8,000 | 4.81 | 12.59 | 15% | Yes |
| | | <u>188,683</u> | | | | | | |
| S. Duff ⁽ⁱ⁾ | – | – | – | – | – | – | n/a | n/a |
| | | <u>–</u> | | | | | | |
| | | 811,340 | | 811,340 | 2.97 | | | |

(i) Group management

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

Value of options – basis of calculation

Options exercised during the year were granted between 23 March 2004 and 15 August 2006.

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

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

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

Proceedings on behalf of the Company

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

Non-audit services

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

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 10 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit and Risk Management Committee, for the following reasons:

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

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 10 to the financial statements.

Auditor's independence declaration

The auditor's independence declaration is included on page 33, of the Annual Report.

Rounding off of amounts

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

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

On behalf of the directors



Patrick Elliott
Chairman



Richard Uechritz
Chief Executive Officer

Melbourne,
10 August 2009

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

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

10 August 2009

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.

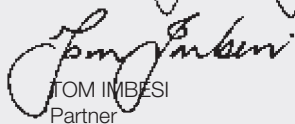
As lead audit partner for the audit of the financial statements of JB Hi-Fi Limited for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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



TOM IMBESI
Partner

Chartered Accountants



Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

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 2009, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 36 to 82.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Liability limited by a scheme approved under Professional Standards Legislation.

Deloitte.

Auditor's Independence Declaration

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

Auditor's Opinion

In our opinion:

- (a) the financial report of JB Hi-Fi Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

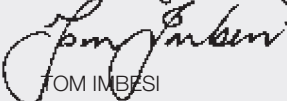
Report on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 32 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of JB Hi-Fi Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.


DELOITTE TOUCHE TOHMATSU


TOM IMBESI
Partner
Chartered Accountants

Melbourne
10 August 2009

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) 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 Company and the Group; and
- (c) 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 29 to the financial statements will, as a Group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



Patrick Elliott
Chairman



Richard Uechritz
Chief Executive Officer

Melbourne,
10 August 2009

INCOME STATEMENT

for the financial year ended 30 June 2009

| | Note | Consolidated | | Company | |
|------------------------------|------|----------------|----------------|----------------|----------------|
| | | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| Revenue | 4 | 2,327,266 | 1,828,564 | - | - |
| Cost of sales | 6 | (1,823,675) | (1,428,873) | - | - |
| Gross profit | | 503,591 | 399,691 | - | - |
| Other income | 4 | 1,653 | 1,477 | 33,928 | 17,745 |
| Sales and marketing expenses | | (230,411) | (193,436) | - | - |
| Occupancy expenses | | (84,551) | (65,080) | - | - |
| Administration expenses | | (21,288) | (18,991) | (624) | (432) |
| Finance costs | 5 | (8,036) | (9,297) | - | - |
| Other expenses | | (25,465) | (20,404) | - | - |
| Profit before tax | | 135,493 | 93,960 | 33,304 | 17,313 |
| Income tax expense | 7 | (41,055) | (28,875) | (26) | (120) |
| Profit for the year | | 94,438 | 65,085 | 33,278 | 17,193 |
| Attributable to: | | | | | |
| Equity holders of the parent | | 94,438 | 65,085 | 33,278 | 17,193 |
| | | 94,438 | 65,085 | 33,278 | 17,193 |
| Earnings per share | | | | | |
| Basic (cents per share) | 26 | 88.26 | 61.78 | | |
| Diluted (cents per share) | 26 | 87.63 | 60.68 | | |

KEY STATISTICAL DATA

for the financial year ended 30 June 2009

| | Consolidated | |
|---|--------------|--------|
| | 2009 | 2008 |
| Gross margin percentage | 21.64% | 21.86% |
| Rent for trading stores as a percentage of sales ⁽ⁱ⁾ | 2.01% | 1.96% |
| Cost of doing business as a percentage of sales | 14.54% | 15.31% |
| Earnings before interest and taxation (EBIT) margin | 6.10% | 5.59% |
| Number of stores at end of the period | 123 | 105 |

(i) Based on actual rent and outgoings for the financial year, excluding the impact of A-IFRS straight-line rent adjustment. Including the A-IFRS adjustment, rent as a percentage of sales would be 2.13% (2008: 2.04%).

Notes to the financial statements are included on pages 41 to 82

BALANCE SHEET
as at 30 June 2009

| | Note | Consolidated | | Company | |
|--------------------------------------|------|----------------|----------------|----------------|----------------|
| | | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| Current assets | | | | | |
| Cash and cash equivalents | 34 | 35,790 | – | 214 | 421 |
| Trade and other receivables | 11 | 60,269 | 52,996 | – | – |
| Inventories | 12 | 324,519 | 271,878 | – | – |
| Other | 13 | 5,661 | 5,328 | – | – |
| Total current assets | | 426,239 | 330,202 | 214 | 421 |
| Non-current assets | | | | | |
| Other financial assets | 14 | 3 | 609 | 68,097 | 54,655 |
| Plant and equipment | 15 | 136,063 | 112,923 | – | – |
| Deferred tax assets | 7 | 17,994 | 10,927 | – | – |
| Goodwill | 16 | 34,716 | 34,538 | – | – |
| Intangible assets | 17 | 46,636 | 46,636 | – | – |
| Total non-current assets | | 235,412 | 205,633 | 68,097 | 54,655 |
| Total assets | | 661,651 | 535,835 | 68,311 | 55,076 |
| Current liabilities | | | | | |
| Trade and other payables | 18 | 273,950 | 206,104 | – | 15 |
| Borrowings | 19 | – | 1,502 | – | – |
| Other financial liabilities | 21 | 1,554 | – | – | – |
| Current tax liabilities | 7 | 18,204 | 12,173 | 18,204 | 12,173 |
| Provisions | 20 | 28,235 | 17,529 | – | – |
| Other | 22 | 1,781 | 1,185 | – | – |
| Total current liabilities | | 323,724 | 238,493 | 18,204 | 12,188 |
| Non-current liabilities | | | | | |
| Borrowings | 19 | 89,358 | 123,015 | – | – |
| Other financial liabilities | 21 | 588 | – | – | – |
| Provisions | 20 | 3,829 | 1,636 | – | – |
| Other | 22 | 14,900 | 8,801 | – | – |
| Total non-current liabilities | | 108,675 | 133,452 | – | – |
| Total liabilities | | 432,399 | 371,945 | 18,204 | 12,188 |
| Net assets | | 229,252 | 163,890 | 50,107 | 42,888 |
| Equity | | | | | |
| Issued capital | 23 | 44,783 | 39,544 | 44,783 | 39,544 |
| Reserves | 24 | 193 | 1,291 | 4,910 | 2,991 |
| Retained earnings | 25 | 184,276 | 123,055 | 414 | 353 |
| Total equity | | 229,252 | 163,890 | 50,107 | 42,888 |

Notes to the financial statements are included on pages 41 to 82

STATEMENT OF CHANGES IN EQUITY
for the financial year ended 30 June 2009

| | Note | Consolidated | | Company | |
|--|------|----------------|----------------|----------------|----------------|
| | | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| (a) Retained earnings | 25 | | | | |
| Retained earnings at the beginning of the year | | 123,055 | 74,883 | 353 | 73 |
| Net profit attributable to members of the parent entity | | 94,438 | 65,085 | 33,278 | 17,193 |
| Dividends paid | | (33,217) | (16,913) | (33,217) | (16,913) |
| Retained earnings at the end of the year | | 184,276 | 123,055 | 414 | 353 |
| (b) Reserves | 24 | | | | |
| Reserves at the beginning of the year | | 1,291 | 2,344 | 2,991 | 1,711 |
| Movements in reserves: | | | | | |
| Equity-settled benefits | | 1,919 | 1,280 | 1,919 | 1,280 |
| Foreign currency translation | | (1,440) | (1,933) | - | - |
| Hedge: | | | | | |
| - interest rate swap | | (1,577) | (258) | - | - |
| - net investment | | - | 1,083 | - | - |
| Other reserve | | - | (1,225) | - | - |
| Reserves at the end of the year | | 193 | 1,291 | 4,910 | 2,991 |
| (c) Issued capital | 23 | | | | |
| Issued capital at the beginning of the year | | 39,544 | 35,883 | 39,544 | 35,883 |
| Issue of shares under share option plan | | 5,239 | 3,661 | 5,239 | 3,661 |
| Issued capital at the end of the year | | 44,783 | 39,544 | 44,783 | 39,544 |
| (d) Total recognised income and expenses for the year | | | | | |
| Net profit for the year | | 94,438 | 65,085 | 33,278 | 17,193 |
| Profit attributable to minority interest | | - | - | - | - |
| Net profit attributable to members of the parent entity | | 94,438 | 65,085 | 33,278 | 17,193 |
| Net income/(expense) recognised directly in equity: | | | | | |
| - foreign currency translation | | (1,440) | (1,933) | - | - |
| - interest rate swap | | (1,577) | (258) | - | - |
| - net investment | | - | 1,083 | - | - |
| Total recognised income and expenses for the year | | 91,421 | 63,977 | 33,278 | 17,193 |
| Attributable to: | | | | | |
| Equity holders of the parent | | 91,421 | 63,977 | 33,278 | 17,193 |
| | | 91,421 | 63,977 | 33,278 | 17,193 |

Notes to the financial statements are included on pages 41 to 82

CASH FLOW STATEMENT
for the financial year ended 30 June 2009

| | Note | Consolidated | | Company | |
|---|-------|----------------|----------------|----------------|----------------|
| | | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| Cash flows from operating activities | | | | | |
| Receipts from customers | | 2,511,888 | 1,985,141 | - | - |
| Payments to suppliers and employees | | (2,318,308) | (1,905,792) | - | - |
| Dividend received | | - | - | 33,217 | 16,913 |
| Interest and bill discounts received | | 1,564 | 1,008 | 712 | 832 |
| Interest and other costs of finance paid | | (8,310) | (9,957) | - | - |
| Income taxes paid | | (41,257) | (27,963) | (41,594) | (27,747) |
| Net cash provided by/(used in) operating activities | 34(c) | 145,577 | 42,437 | (7,665) | (10,002) |
| Cash flows from investing activities | | | | | |
| Proceeds from repayment of related party loans | | - | - | 36,516 | 24,376 |
| Payments for plant and equipment | | (44,444) | (51,573) | - | - |
| Proceeds from sale of plant and equipment | | 591 | 234 | - | - |
| Payment for businesses | 34(b) | - | (8,185) | - | - |
| Net cash (used in)/provided by investing activities | | (43,853) | (59,524) | 36,516 | 24,376 |
| Cash flows from financing activities | | | | | |
| Borrowing activities: | | | | | |
| Proceeds from borrowings | | - | 5,841 | - | - |
| Repayment of borrowings | | (35,278) | - | - | - |
| Equity activities: | | | | | |
| Proceeds from issue of equity securities | | 4,159 | 2,960 | 4,159 | 2,960 |
| Dividends paid to members of the parent entity | | (33,217) | (16,913) | (33,217) | (16,913) |
| Net cash (used in)/provided by financing activities | | (64,336) | (8,112) | (29,058) | (13,953) |
| Net increase/(decrease) in cash and cash equivalents | | 37,388 | (25,199) | (207) | 421 |
| Cash and cash equivalents at the beginning of the financial year | | (1,492) | 23,707 | 421 | - |
| Effect of exchange rates on cash and cash equivalents | | (106) | - | - | - |
| Cash and cash equivalents at the end of the financial year | 34(a) | 35,790 | (1,492) | 214 | 421 |

Notes to the financial statements are included on pages 41 to 82

1. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations did not have any material financial impact on the amounts recognised in the financial statements of the Company or the Group, however they have impacted the disclosures presented in the financial statements.

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

- AASB 8 'Operating Segments' Effective for annual reporting periods beginning on or after 1 January 2009
- AASB 101 'Presentation of Financial Statements' – revised standard Effective for annual reporting periods beginning on or after 1 January 2009
- AASB 3 'Business Combinations' – revised standard Effective for annual reporting periods beginning on or after 1 July 2009
- AASB 127 'Consolidated and Separate Financial Statements' – revised standard Effective for annual reporting periods beginning on or after 1 July 2009

Except as outlined below, the directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company or the Group.

The application of AASB 8 and AASB 101 (revised) will not affect any of the amounts recognised in the financial statements, but will change the disclosures presently made in relation to the Group's operating segments and the presentation of the financial statements themselves. These Standards will be first applied in the financial report of the Group that relates to the annual reporting period beginning after the effective date of each Standard, which will be the annual reporting period beginning on 1 July 2009.

Application of the revised AASB 3 may impact the amounts recognised in the financial statements in future reporting periods. The revised AASB 3 provides additional guidance on how to apply the acquisition method in accounting for business combinations, including clarifying that acquisition-related costs must be expensed in the period in which the costs are incurred, not added to the cost of the business combination as is current practice. AASB 3 is applicable prospectively to all business combinations for which the acquisition date is on or after 1 July 2009.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report includes the separate financial statements of the Company and the consolidated financial statement of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with A-IFRS ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the directors on 10 August 2009.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain financial instruments to fair value. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that class order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying value of certain assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates and underlying assumptions are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 3.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination.

(b) Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

(c) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash in banks. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(e) Derivative financial instruments

The Group enters into financial instruments, including derivative financial instruments, to manage its exposure to interest rate and foreign exchange risk. Refer to note 35 for further details. 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 each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain financial instruments as hedges of highly probable forecast transactions (cash flow hedges) or hedges of net investments in foreign operations.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses or other income. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred 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 deferred in equity is recognised immediately in profit or loss.

Hedges of net investments in foreign operations

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 the net investment hedging reserve; the gain or loss relating to the ineffective portion is recognised immediately in profit and loss as part of other expenses or other income. Gains and losses deferred in the net investment hedging reserve are recognised in profit or loss when the foreign operation is disposed.

(f) Dividends

A provision for dividends is recognised for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the financial year but not distributed at the reporting date.

(g) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

(h) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

(i) Impairment of assets

At each reporting date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) other than goodwill is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(j) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

(j) Income tax (cont.)

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Tax consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. JB Hi-Fi Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the tax-consolidated group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is disclosed in note 7.

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.

(k) Intangible assets

Intangible assets acquired in a business combination

All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

(k) Intangible assets (cont.)

Brand names and trademarks

Brand names recognised by the Company have an indefinite life and are not amortised. Each period, the useful life of this asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment in accordance with the policy stated in note 2(j).

Rights to profit share

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

(l) Inventories

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

(m) Investments

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

(n) Leased assets

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

Finance leases

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

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

Operating leases

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

Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. Trade and other payables are stated at amortised cost.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

(p) Plant and equipment

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

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

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

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

(q) 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.

(r) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised:

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.

Dividend and interest revenue

Dividend revenue from investments is recognised when the Group's right to receive payment has been established.

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.

(s) Trade and other receivables

Trade and non-trade receivables are measured at amortised cost less provision for impairment.

(t) Financial instruments issued by the Group

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Transaction costs arising from the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of these equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instrument.

(u) Borrowings

Borrowings are measured initially at fair value, net of transaction costs and are subsequently measured at amortised cost.

(v) Share-based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at grant date. Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Future details on how the fair value of equity-settled share-based transactions has been determined can be found in note 9.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

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

(w) Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Goodwill is subsequently measured at its cost less any accumulated impairment losses.

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.

(x) Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of JB Hi-Fi Limited, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities within the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

(x) Foreign currency (cont.)

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's foreign operations (including comparatives) are translated into Australian dollars at exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A-IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(a) Critical judgements in applying the Group's accounting policies

The following are the critical judgements (apart from those involving estimations, which are dealt with below), that management has made in the process of applying the Group's accounting policies and have the most significant effect on the amounts recognised in the financial statements:

Inventories

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

Employee entitlements

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- future increases in wages and salaries;
- future on-cost rates; and
- experience of employee departures and period of service.

(b) Key sources of estimation uncertainty

Impairment of goodwill and other intangible assets

Determining whether goodwill and other intangible assets are impaired requires an estimation of the recoverable amount of the cash-generating units to which the assets have been allocated. Recoverable amount has been determined based on value in use calculations and details of the assumptions used can be found in notes 16 and 17.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2009

| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| 4. REVENUE | | | | |
| An analysis of the Group's revenue for the year is as follows: | | | | |
| Revenue from the sale of goods | 2,327,266 | 1,828,564 | - | - |
| Interest: | | | | |
| Banks | 1,562 | 1,008 | - | - |
| Subsidiaries | - | - | 711 | 832 |
| Dividends: | | | | |
| Subsidiaries | - | - | 33,217 | 16,913 |
| Other income | 91 | 469 | - | - |
| | 1,653 | 1,477 | 33,928 | 17,745 |
| | 2,328,919 | 1,830,041 | 33,928 | 17,745 |
| 5. FINANCE COSTS | | | | |
| Interest on loans | 7,415 | 9,804 | - | - |
| Fair value loss/(gain) on interest rate swaps designated as cash flow hedges transferred from reserves | 307 | (660) | - | - |
| Other interest expense | 312 | 139 | - | - |
| Finance lease charge | 2 | 14 | - | - |
| | 8,036 | 9,297 | - | - |

The weighted average effective interest rate on loans was 6.77% (2008: 7.33%).

| | Consolidated | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| 6. PROFIT FOR THE YEAR | | | | |
| (a) Gains and losses | | | | |
| Profit for the year has been arrived at after crediting/ (charging) the following gains and losses: | | | | |
| Loss on disposal of plant and equipment | (2,063) | (2,917) | - | - |
| Net foreign exchange losses | (7) | (1) | - | - |
| | (2,070) | (2,918) | - | - |

| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| 6. PROFIT FOR THE YEAR (cont.) | | | | |
| (b) Other expenses | | | | |
| Profit for the year includes the following expenses: | | | | |
| Cost of sales | 1,823,675 | 1,428,873 | - | - |
| Inventory: | | | | |
| Shrinkage ⁽ⁱ⁾ | 7,608 | 6,971 | - | - |
| Impairment of trade receivables | 69 | 265 | - | - |
| Depreciation of non-current assets | 18,749 | 14,741 | - | - |
| Operating lease rental expenses: | | | | |
| Minimum lease payments | 49,806 | 38,511 | - | - |
| Employee benefit expense: | | | | |
| Post employment benefits: | | | | |
| Defined contribution plans | 15,310 | 12,788 | - | - |
| Share-based payments: | | | | |
| Equity settled share-based payments | 2,999 | 1,981 | - | - |
| Other employee benefits | 207,425 | 171,442 | - | - |
| | 225,734 | 186,211 | - | - |

(i) Shrinkage as a percentage of sales was 0.33% (2008: 0.38%).

| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| 7. INCOME TAXES | | | | |
| (a) Income tax recognised in profit or loss | | | | |
| Tax expense comprises: | | | | |
| Current tax expense | 48,122 | 32,343 | 26 | 120 |
| Deferred tax income relating to the origination and reversal of temporary differences | (7,067) | (3,468) | - | - |
| Total tax expense | 41,055 | 28,875 | 26 | 120 |
| The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows: | | | | |
| Profit from operations | 135,493 | 93,960 | 33,304 | 17,313 |
| Income tax expense calculated at 30% (2008: 30%) | 40,648 | 28,188 | 9,992 | 5,194 |
| Effect of expenses that are not deductible in determining taxable profit | 1,157 | 607 | - | - |
| Impact of changes in offshore tax rates | - | 80 | - | - |
| Effect of transactions within the tax-consolidated group that are exempt from taxation | - | - | (9,966) | (5,074) |
| Other | (750) | - | - | - |
| | 41,055 | 28,875 | 26 | 120 |
| Over provision of income tax in previous year | - | - | - | - |
| | 41,055 | 28,875 | 26 | 120 |

The tax rate used in the above reconciliation is the corporate tax rate of 30%.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2009

7. INCOME TAXES (cont.)

| | Consolidated | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| (b) Income tax recognised directly in equity | | | | |
| The following current and deferred amounts were charged directly to equity during the period: | | | | |
| Deferred tax | | | | |
| Tax effect of hedge gains/(losses) in reserves | (676) | 354 | - | - |
| (c) Current tax liabilities | | | | |
| Income tax payable attributable to: | | | | |
| Parent entity | 26 | 120 | 26 | 120 |
| Entities in the tax-consolidated group | 18,178 | 12,053 | 18,178 | 12,053 |
| | 18,204 | 12,173 | 18,204 | 12,173 |

(d) Deferred tax balances

Deferred tax assets/(liabilities) arise from the following:

| 2009 | Consolidated | | | |
|---------------------------------|------------------------------|--------------------------------|------------------------|------------------------------|
| | Opening balance \$'000 | Charged to income \$'000 | Acquisitions \$'000 | Closing balance \$'000 |
| Temporary differences | | | | |
| Deferred tax liabilities | | | | |
| Trade and other receivables | (1,111) | 210 | - | (901) |
| Plant and equipment | (1,139) | (615) | - | (1,754) |
| Cash flow hedge | (181) | 181 | - | - |
| | (2,431) | (224) | - | (2,655) |
| Deferred tax assets | | | | |
| Trade and other receivables | 139 | 15 | - | 154 |
| Inventories | 2,422 | 374 | - | 2,796 |
| Cash flow hedge | - | 643 | - | 643 |
| Plant and equipment | 277 | (95) | - | 182 |
| Trade and other payables | 947 | 80 | - | 1,027 |
| Provisions | 7,135 | 4,921 | - | 12,056 |
| Tax losses | 2,438 | 1,353 | - | 3,791 |
| | 13,358 | 7,291 | - | 20,649 |
| Net deferred tax asset | 10,927 | 7,067 | - | 17,994 |

7. INCOME TAXES (cont.)

(d) Deferred tax balances (cont.)

| 2008 | Consolidated | | | |
|---------------------------------|---------------------------|-----------------------------|------------------------|---------------------------|
| | Opening balance \$'000 | Charged to income \$'000 | Acquisitions \$'000 | Closing balance \$'000 |
| Temporary differences | | | | |
| Deferred tax liabilities | | | | |
| Trade and other receivables | (726) | (385) | – | (1,111) |
| Plant and equipment | (914) | (225) | – | (1,139) |
| Cash flow hedge | (252) | 71 | – | (181) |
| | (1,892) | (539) | – | (2,431) |
| Deferred tax assets | | | | |
| Trade and other receivables | 63 | 76 | – | 139 |
| Inventories | 1,867 | 555 | – | 2,422 |
| Plant and equipment | 712 | (435) | – | 277 |
| Other financial liabilities | 106 | (106) | – | – |
| Trade and other payables | 954 | (7) | – | 947 |
| Provisions | 5,636 | 1,486 | 13 | 7,135 |
| Tax losses | – | 2,438 | – | 2,438 |
| | 9,338 | 4,007 | 13 | 13,358 |
| Net deferred tax asset | 7,446 | 3,468 | 13 | 10,927 |

The Company has no taxable or deductible temporary differences in the current or prior reporting periods.

(e) Tax consolidation

Relevance of tax consolidation to the Group

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 29.

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.

8. KEY MANAGEMENT PERSONNEL REMUNERATION

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

| | Consolidated | | Company | |
|------------------------------|--------------|------------|------------|------------|
| | 2009 \$ | 2008 \$ | 2009 \$ | 2008 \$ |
| Short-term employee benefits | 5,514,411 | 5,019,188 | 532,110 | 453,867 |
| Post-employment benefits | 295,256 | 272,689 | 47,890 | 40,848 |
| Share-based payments | 1,485,848 | 975,441 | – | – |
| | 7,295,515 | 6,267,318 | 580,000 | 494,715 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2009

9. SHARE-BASED PAYMENTS

(a) Executive and employee share option plan

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

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

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

| | 2009 | | 2008 | |
|---|-------------------|------------------------------------|-------------------|------------------------------------|
| | Number of options | Weighted average exercise price \$ | Number of options | Weighted average exercise price \$ |
| Balance at beginning of the financial year | 3,842,790 | 6.10 | 3,872,149 | 3.36 |
| Granted during the financial year | 1,760,463 | 13.42 | 1,227,268 | 10.90 |
| Exercised/lapsed during the financial year | (1,471,295) | 3.60 | (1,256,627) | 2.36 |
| Balance at end of the financial year ⁽ⁱ⁾ | 4,131,958 | 10.11 | 3,842,790 | 6.10 |
| Exercisable at end of the financial year | 218,664 | 4.82 | 220,605 | 2.79 |

(i) The share options outstanding at the end of the financial year had a weighted average remaining contractual life of 1,174 days (2008: 1,047 days).

(b) 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 \$ |
|---------------|-------------------------------|----------------|-----------------|-------------------|-------------|-------------------|---------------------|----------------------|-------------------------------|---------------------|
| 13 | 16,667 | Ordinary | 12/04/05 | 3.52 | 12/04/10 | 3.61 | 25.7% | 2.0% | 5.54% | 0.92 |
| 14 | 211,175 | Ordinary | 22/07/05 | 3.38 | 22/07/10 | 3.33 | 28.4% | 2.1% | 5.29% | 0.81 |
| 15 | 42,000 | Ordinary | 08/08/05 | 3.44 | 08/08/10 | 3.37 | 28.3% | 2.1% | 5.34% | 0.83 |
| 16 | 16,667 | Ordinary | 26/09/05 | 3.39 | 26/09/10 | 3.29 | 28.3% | 2.1% | 5.25% | 0.83 |
| 17 | 67,712 | Ordinary | 22/07/05 | 3.38 | 22/07/10 | 3.33 | 28.4% | 2.1% | 5.29% | 0.81 |
| 18 | 50,000 | Ordinary | 03/04/06 | 4.94 | 03/04/11 | 4.89 | 28.3% | 1.5% | 5.37% | 1.25 |
| 19 | 33,334 | Ordinary | 26/06/06 | 4.85 | 26/06/11 | 4.98 | 29.4% | 1.5% | 5.85% | 1.21 |
| 20 | 213,338 | Ordinary | 15/08/06 | 4.79 | 15/08/11 | 4.81 | 29.5% | 1.6% | 5.98% | 1.24 |
| 21 | 112,001 | Ordinary | 15/08/06 | 4.79 | 15/08/11 | 4.81 | 29.5% | 1.6% | 5.98% | 1.24 |
| 22 | 48,000 | Ordinary | 15/08/06 | 4.79 | 15/08/11 | 4.81 | 29.5% | 1.6% | 5.98% | 1.24 |
| 23 | 50,000 | Ordinary | 13/09/06 | 4.81 | 13/09/11 | 4.81 | 29.4% | 1.6% | 5.74% | 1.24 |
| 24 | 163,333 | Ordinary | 15/08/06 | 4.79 | 15/08/11 | 4.81 | 29.5% | 1.6% | 5.98% | 1.24 |
| 25 | 70,000 | Ordinary | 15/08/06 | 4.79 | 15/08/11 | 4.81 | 29.5% | 1.6% | 5.98% | 1.24 |
| 26 | 20,000 | Ordinary | 29/11/06 | 5.82 | 29/11/11 | 5.73 | 29.2% | 1.4% | 5.75% | 1.56 |
| 27 | 50,000 | Ordinary | 28/12/06 | 6.55 | 28/12/11 | 6.48 | 29.3% | 1.2% | 6.04% | 1.79 |
| 28 | 50,000 | Ordinary | 19/04/07 | 8.05 | 19/04/12 | 8.01 | 29.4% | 1.1% | 6.11% | 2.21 |
| 29 | 30,000 | Ordinary | 07/05/07 | 8.75 | 07/05/12 | 8.47 | 29.4% | 1.0% | 6.01% | 2.51 |
| 30 | 60,000 | Ordinary | 04/07/07 | 11.36 | 04/07/12 | 10.90 | 29.8% | 1.1% | 6.32% | 3.37 |

9. SHARE-BASED PAYMENTS (cont.)

(b) Shares under option (cont.)

| Option series | Number of shares under option | Class of share | Grant date (GD) | Share Price at GD | Expiry date | Exercise price \$ | Expected volatility | Dividend yield at GD | Risk-free interest rate at GD | Fair value at GD \$ |
|---------------|-------------------------------|----------------|-----------------|-------------------|-------------|-------------------|---------------------|----------------------|-------------------------------|---------------------|
| 31 | 30,000 | Ordinary | 01/08/07 | 11.20 | 01/08/12 | 11.25 | 30.0% | 1.1% | 6.16% | 3.10 |
| 32 | 360,000 | Ordinary | 20/08/07 | 11.02 | 20/08/12 | 11.00 | 31.2% | 1.1% | 6.05% | 3.15 |
| 33 | 118,754 | Ordinary | 20/08/07 | 11.02 | 20/08/12 | 11.00 | 31.2% | 1.1% | 6.05% | 3.15 |
| 34 | 50,896 | Ordinary | 20/08/07 | 11.02 | 20/08/12 | 11.00 | 31.2% | 1.1% | 6.05% | 3.15 |
| 35 | 278,332 | Ordinary | 20/08/07 | 11.02 | 20/08/12 | 11.00 | 31.2% | 1.1% | 6.05% | 3.15 |
| 36 | 119,286 | Ordinary | 20/08/07 | 11.02 | 20/08/12 | 11.00 | 31.2% | 1.1% | 6.05% | 3.15 |
| 37 | 30,000 | Ordinary | 19/02/08 | 10.64 | 19/02/13 | 10.90 | 34.8% | 2.2% | 6.69% | 2.98 |
| 38 | 50,000 | Ordinary | 07/04/08 | 10.01 | 07/04/13 | 9.54 | 35.9% | 2.3% | 6.21% | 3.05 |
| 39 | 30,000 | Ordinary | 05/06/08 | 9.75 | 05/06/13 | 9.66 | 36.8% | 2.4% | 6.60% | 2.91 |
| 40 | 80,000 | Ordinary | 23/07/08 | 12.16 | 23/07/13 | 11.76 | 37.6% | 1.9% | 6.48% | 3.90 |
| 41 | 500,000 | Ordinary | 26/08/08 | 13.52 | 26/08/13 | 12.98 | 37.6% | 2.0% | 5.72% | 3.86 |
| 42 | 110,286 | Ordinary | 26/08/08 | 13.52 | 26/08/13 | 12.98 | 37.6% | 2.0% | 5.72% | 3.86 |
| 43 | 47,264 | Ordinary | 26/08/08 | 13.52 | 26/08/13 | 12.98 | 37.6% | 2.0% | 5.72% | 3.86 |
| 44 | 258,480 | Ordinary | 26/08/08 | 13.52 | 26/08/13 | 12.98 | 37.6% | 2.0% | 5.72% | 3.86 |
| 45 | 110,778 | Ordinary | 26/08/08 | 13.52 | 26/08/13 | 12.98 | 37.6% | 2.0% | 5.72% | 3.86 |
| 46 | 120,000 | Ordinary | 01/04/09 | 11.62 | 01/04/14 | 11.62 | 44.9% | 2.7% | 3.89% | 3.57 |
| 47 | 443,000 | Ordinary | 29/06/09 | 15.06 | 29/06/14 | 14.92 | 46.5% | 2.9% | 5.19% | 4.86 |
| 48 | 63,459 | Ordinary | 29/06/09 | 15.06 | 29/06/14 | 14.92 | 46.5% | 2.9% | 5.19% | 4.86 |
| 49 | 27,196 | Ordinary | 29/06/09 | 15.06 | 29/06/14 | 14.92 | 46.5% | 2.9% | 5.19% | 4.86 |
| | <u>4,131,958</u> | | | | | | | | | |

The holders of these options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme. The weighted average fair value of the share options granted during the financial year is \$4.15 (2008: \$3.15). Options were valued using the Black-Scholes model.

Volatility is based on:

- Series 10 to 13, expected volatility is based on the daily closing share price for the 12 months preceding the issues of the series.
- Series 14 to 29, expected volatility is based on the daily closing share price since listing.
- Series 30 and onwards, expected volatility is based on the daily closing share price for the 3.44 years preceding the issues of the series.

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

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

2009

| Option Series | Grant date | Exercise date | Number exercised | Number of shares issued | Class of shares | Amount paid per share \$ | Amount unpaid per share \$ | Share price at exercise date \$ |
|---------------|------------|---------------|------------------|-------------------------|-----------------|--------------------------|----------------------------|---------------------------------|
| 5 | 18/09/03 | 19/08/08 | 10,666 | 10,666 | Ordinary | 1.25 | – | 12.59 |
| 7 | 29/01/04 | 19/08/08 | 8,606 | 8,606 | Ordinary | 2.32 | – | 12.59 |
| 8 | 23/03/04 | 19/08/08 | 50,000 | 50,000 | Ordinary | 2.23 | – | 12.59 |
| 9 | 28/04/04 | 19/08/08 | 60,333 | 60,333 | Ordinary | 2.25 | – | 12.59 |
| 9 | 28/04/04 | 10/02/09 | 13,334 | 13,334 | Ordinary | 2.25 | – | 10.80 |
| 10 | 23/07/04 | 19/08/08 | 474,791 | 474,791 | Ordinary | 2.29 | – | 12.59 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2009

9. SHARE-BASED PAYMENTS (cont.)

(b) Shares under option (cont.)

2009

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

2008

| Option Series | Grant date | Exercise date | Number exercised | Number of shares issued | Class of shares | Amount paid per share \$ | Amount unpaid per share \$ | Share price at exercise date \$ |
|---------------|------------|---------------|------------------|-------------------------|-----------------|--------------------------|----------------------------|---------------------------------|
| 5 | 18/09/03 | 30/10/07 | 37,333 | 37,333 | Ordinary | 1.25 | – | 16.88 |
| 6 | 18/09/03 | 30/10/07 | 195,000 | 195,000 | Ordinary | 1.45 | – | 16.88 |
| 7 | 29/01/04 | 15/08/07 | 8,606 | 8,606 | Ordinary | 2.32 | – | 11.10 |
| 8 | 23/03/04 | 14/08/07 | 50,000 | 50,000 | Ordinary | 2.23 | – | 11.35 |
| 9 | 28/04/04 | 14/08/07 | 60,333 | 60,333 | Ordinary | 2.25 | – | 11.35 |
| 10 | 23/07/04 | 14/08/07 | 204,916 | 204,916 | Ordinary | 2.29 | – | 11.35 |
| 10 | 23/07/04 | 15/08/07 | 117,678 | 117,678 | Ordinary | 2.29 | – | 11.10 |
| 10 | 23/07/04 | 23/08/07 | 176,583 | 176,583 | Ordinary | 2.29 | – | 11.70 |
| 10 | 23/07/04 | 31/08/07 | 99,958 | 99,958 | Ordinary | 2.29 | – | 12.50 |
| 10 | 23/07/04 | 30/10/07 | 7,334 | 7,334 | Ordinary | 2.29 | – | 16.88 |
| 10 | 23/07/04 | 12/02/08 | 6,666 | 6,666 | Ordinary | 2.29 | – | 11.59 |
| 10 | 23/07/04 | 07/03/08 | 6,666 | 6,666 | Ordinary | 2.29 | – | 9.51 |

9. SHARE-BASED PAYMENTS (cont.)

(b) Shares under option (cont.)

| 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 \$ |
|---------------|------------|---------------|------------------|-------------------------|-----------------|--------------------------|----------------------------|---------------------------------|
| 11 | 27/10/04 | 12/02/08 | 16,667 | 16,667 | Ordinary | 2.29 | – | 11.59 |
| 12 | 28/01/05 | 12/02/08 | 16,667 | 16,667 | Ordinary | 3.68 | – | 11.59 |
| 13 | 12/04/05 | 14/08/07 | 16,666 | 16,666 | Ordinary | 3.61 | – | 11.35 |
| 14 | 22/07/05 | 14/08/07 | 97,450 | 97,450 | Ordinary | 3.33 | – | 11.35 |
| 14 | 22/07/05 | 15/08/07 | 3,334 | 3,334 | Ordinary | 3.33 | – | 11.10 |
| 14 | 22/07/05 | 23/08/07 | 3,334 | 3,334 | Ordinary | 3.33 | – | 11.70 |
| 14 | 22/07/05 | 31/08/07 | 32,058 | 32,058 | Ordinary | 3.33 | – | 12.50 |
| 14 | 22/07/05 | 30/10/07 | 1,667 | 1,667 | Ordinary | 3.33 | – | 16.88 |
| 14 | 22/07/05 | 12/02/08 | 6,667 | 6,667 | Ordinary | 3.33 | – | 11.59 |
| 14 | 22/07/05 | 07/03/08 | 6,666 | 6,666 | Ordinary | 3.33 | – | 9.51 |
| 16 | 26/09/05 | 30/10/07 | 16,666 | 16,666 | Ordinary | 3.29 | – | 16.88 |
| 17 | 22/07/05 | 15/08/07 | 33,856 | 33,856 | Ordinary | 3.33 | – | 11.10 |
| 17 | 22/07/05 | 23/08/07 | 33,856 | 33,856 | Ordinary | 3.33 | – | 11.70 |
| | | | 1,256,627 | 1,256,627 | | | | |

(c) Long-term incentive

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

| Option Series | Grant date | Performance condition – cumulative EPS growth per annum | Date for testing performance condition | Relevant financial year | Vested subject to performance condition | 100% vested due to achievement of performance condition |
|---------------|------------|---|--|-------------------------|---|---|
| 14.3 | 22/07/05 | 10.0% | 22/07/09 | 2009 | Yes | Yes |
| 17.3 | 22/07/05 | 10.0% | 22/07/09 | 2009 | Yes | Yes |
| 21.2 | 15/08/06 | 10.0% | 15/08/09 | 2009 | n/a | n/a |
| 21.3 | 15/08/06 | 10.0% | 15/08/10 | 2010 | n/a | n/a |
| 22.2 | 15/08/06 | 15.0% | 15/08/09 | 2009 | n/a | n/a |
| 22.3 | 15/08/06 | 15.0% | 15/08/10 | 2010 | n/a | n/a |
| 24.2 | 15/08/06 | 10.0% | 15/08/09 | 2009 | n/a | n/a |
| 24.3 | 15/08/06 | 10.0% | 15/08/10 | 2010 | n/a | n/a |
| 25.2 | 15/08/06 | 15.0% | 15/08/09 | 2009 | n/a | n/a |
| 25.3 | 15/08/06 | 15.0% | 15/08/10 | 2010 | n/a | n/a |
| 33.1 | 20/08/07 | 15.0% | 20/08/09 | 2009 | n/a | n/a |
| 33.2 | 20/08/07 | 15.0% | 20/08/10 | 2010 | n/a | n/a |
| 33.3 | 20/08/07 | 15.0% | 20/08/11 | 2011 | n/a | n/a |
| 34.1 | 20/08/07 | 20.0% | 20/08/09 | 2009 | n/a | n/a |
| 34.2 | 20/08/07 | 20.0% | 20/08/10 | 2010 | n/a | n/a |
| 34.3 | 20/08/07 | 20.0% | 20/08/11 | 2011 | n/a | n/a |
| 35.1 | 20/08/07 | 15.0% | 20/08/09 | 2009 | n/a | n/a |
| 35.2 | 20/08/07 | 15.0% | 20/08/10 | 2010 | n/a | n/a |

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2009

9. SHARE-BASED PAYMENTS (cont.)

(c) Long-term incentive (cont.)

| Option Series | Grant date | Performance condition – cumulative EPS growth per annum | Date for testing performance condition | Relevant financial year | Vested subject to performance condition | 100% vested due to achievement of performance condition |
|---------------|------------|---|--|-------------------------|---|---|
| 35.3 | 20/08/07 | 15.0% | 20/08/11 | 2011 | n/a | n/a |
| 36.1 | 20/08/07 | 20.0% | 20/08/09 | 2009 | n/a | n/a |
| 36.2 | 20/08/07 | 20.0% | 20/08/10 | 2010 | n/a | n/a |
| 36.3 | 20/08/07 | 20.0% | 20/08/11 | 2011 | n/a | n/a |
| 42.1 | 26/08/08 | 15.0% | 26/08/10 | 2010 | n/a | n/a |
| 42.2 | 26/08/08 | 15.0% | 26/08/11 | 2011 | n/a | n/a |
| 42.3 | 26/08/08 | 15.0% | 26/08/12 | 2012 | n/a | n/a |
| 43.1 | 26/08/08 | 20.0% | 26/08/10 | 2010 | n/a | n/a |
| 43.2 | 26/08/08 | 20.0% | 26/08/11 | 2011 | n/a | n/a |
| 43.3 | 26/08/08 | 20.0% | 26/08/12 | 2012 | n/a | n/a |
| 44.1 | 26/08/08 | 15.0% | 26/08/10 | 2010 | n/a | n/a |
| 44.2 | 26/08/08 | 15.0% | 26/08/11 | 2011 | n/a | n/a |
| 44.3 | 26/08/08 | 15.0% | 26/08/12 | 2012 | n/a | n/a |
| 45.1 | 26/08/08 | 20.0% | 26/08/10 | 2010 | n/a | n/a |
| 45.2 | 26/08/08 | 20.0% | 26/08/11 | 2011 | n/a | n/a |
| 45.3 | 26/08/08 | 20.0% | 26/08/12 | 2012 | n/a | n/a |
| 48.1 | 29/06/09 | 10.0% | 29/06/11 | 2011 | n/a | n/a |
| 48.2 | 29/06/09 | 10.0% | 29/06/12 | 2012 | n/a | n/a |
| 48.3 | 29/06/09 | 10.0% | 29/06/13 | 2013 | n/a | n/a |
| 49.1 | 29/06/09 | 15.0% | 29/06/11 | 2011 | n/a | n/a |
| 49.2 | 29/06/09 | 15.0% | 29/06/12 | 2012 | n/a | n/a |
| 49.3 | 29/06/09 | 15.0% | 29/06/13 | 2013 | n/a | n/a |

| | Consolidated | | Company | |
|---|--------------|------------|------------|------------|
| | 2009 \$ | 2008 \$ | 2009 \$ | 2008 \$ |
| 10. REMUNERATION OF AUDITORS | | | | |
| Auditor of the parent entity | | | | |
| Audit of the financial report | | | | |
| – Current year | 291,500 | 289,000 | – | – |
| Taxation services including due diligence | – | 48,900 | – | – |
| Other non-audit services: | | | | |
| Other | – | – | – | – |
| | 291,500 | 337,900 | – | – |
| Other auditors | | | | |
| Audit of the financial report | | | | |
| – Current year | 32,500 | 31,000 | – | – |
| | 32,500 | 31,000 | – | – |
| | 324,000 | 368,900 | – | – |

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

The auditor of JB Hi-Fi Group (NZ) Limited (formerly Hill & Stewart Appliances Limited) is Deloitte Touche Tohmatsu (New Zealand).

| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| 11. TRADE AND OTHER RECEIVABLES | | | | |
| Trade receivables | 17,539 | 14,140 | - | - |
| Allowance for doubtful debts | (514) | (463) | - | - |
| | 17,025 | 13,677 | - | - |
| Goods and services tax (GST) recoverable | 219 | 115 | - | - |
| Non-trade receivables | 43,025 | 39,204 | - | - |
| | 60,269 | 52,996 | - | - |

(a) Terms and conditions

Trade receivables

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

An allowance has been made for estimated irrecoverable amounts arising from a review of individual store 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 | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| (b) Ageing of trade receivables | | | | |
| Not past due | 14,544 | 7,271 | - | - |
| Past due but not impaired: | | | | |
| 0 – 30 days | 958 | 3,143 | - | - |
| 31 – 60 days | 566 | 738 | - | - |
| 61 – 90 days | 295 | 1,446 | - | - |
| 91+ days | 662 | 1,079 | - | - |
| Total | 17,025 | 13,677 | - | - |
| (c) Movement in allowance for doubtful debts | | | | |
| Balance at the beginning of the year | 463 | 211 | - | - |
| Impairment losses recognised | 69 | 265 | - | - |
| Amounts written off as uncollectible | (171) | (13) | - | - |
| Amounts recovered | 153 | - | - | - |
| Balance at the end of the year | 514 | 463 | - | - |
| (d) Ageing of allowance for doubtful debts | | | | |
| 0 – 30 days | - | - | - | - |
| 31 – 60 days | - | - | - | - |
| 61 – 90 days | - | - | - | - |
| 91+ days | 514 | 463 | - | - |
| Balance at the end of the year | 514 | 463 | - | - |

11. TRADE AND OTHER RECEIVABLES (cont.)

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

The Group does not hold any collateral over trade receivables.

| | Consolidated | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| 12. INVENTORIES | | | | |
| Finished goods | 324,519 | 271,878 | - | - |
| 13. OTHER ASSETS | | | | |
| Current | | | | |
| Prepayments | 3,327 | 3,503 | - | - |
| Other deposits | 2,334 | 1,609 | - | - |
| Other assets | - | 216 | - | - |
| | 5,661 | 5,328 | - | - |
| 14. OTHER NON-CURRENT FINANCIAL ASSETS | | | | |
| Investments in subsidiaries | - | - | 35,583 | 33,583 |
| Shares in listed entities | 3 | 3 | - | - |
| | 3 | 3 | 35,583 | 33,583 |
| Loans to subsidiaries | - | - | 32,514 | 21,072 |
| | - | - | 32,514 | 21,072 |
| Interest rate swap | - | 606 | - | - |
| | 3 | 609 | 68,097 | 54,655 |

| | Consolidated | | | |
|---|--|---|---|-----------------|
| | Leasehold improvements at cost \$'000 | Plant and equipment at cost \$'000 | Equipment under finance lease at cost \$'000 | Total \$'000 |
| 15. PLANT AND EQUIPMENT | | | | |
| Gross carrying amount | | | | |
| Balance at 1 July 2007 | 36,699 | 72,088 | 280 | 109,067 |
| Additions | 19,394 | 32,179 | - | 51,573 |
| Disposals | (743) | (4,508) | - | (5,251) |
| Net foreign currency exchange differences | (660) | (321) | - | (981) |
| Transfers | (878) | 1,158 | (280) | - |
| Balance at 1 July 2008 | 53,812 | 100,596 | - | 154,408 |
| Additions | 15,511 | 28,918 | - | 44,429 |
| Disposals | (1,566) | (3,980) | - | (5,546) |
| Net foreign currency exchange differences | 84 | 14 | - | 98 |
| Transfers | - | - | - | - |
| Balance at 30 June 2009 | 67,841 | 125,548 | - | 193,389 |
| Accumulated depreciation | | | | |
| Balance at 1 July 2007 | (8,742) | (19,983) | (198) | (28,923) |

15. PLANT AND EQUIPMENT (cont.)

| | Consolidated | | | |
|---|--|---|---|---------------------|
| | <i>Leasehold improvements at cost \$'000</i> | <i>Plant and equipment at cost \$'000</i> | <i>Equipment under finance lease at cost \$'000</i> | <i>Total \$'000</i> |
| Disposals | 455 | 1,645 | – | 2,100 |
| Depreciation expense | (5,471) | (9,270) | – | (14,741) |
| Net foreign currency exchange differences | 54 | 25 | – | 79 |
| Transfers | 198 | (396) | 198 | – |
| Balance at 1 July 2008 | (13,506) | (27,979) | – | (41,485) |
| Disposals | 284 | 2,607 | – | 2,891 |
| Depreciation expense | (6,779) | (11,970) | – | (18,749) |
| Net foreign currency exchange differences | 10 | 7 | – | 17 |
| Transfers | – | – | – | – |
| Balance at 30 June 2009 | (19,991) | (37,335) | – | (57,326) |
| Net book value | | | | |
| As at 30 June 2008 | 40,306 | 72,617 | – | 112,923 |
| As at 30 June 2009 | 47,850 | 88,213 | – | 136,063 |

The Company does not hold any plant and equipment.

| | Consolidated | | Company | |
|--|--------------------|--------------------|--------------------|--------------------|
| | <i>2009 \$'000</i> | <i>2008 \$'000</i> | <i>2009 \$'000</i> | <i>2008 \$'000</i> |
| 16. GOODWILL | | | | |
| Gross carrying amount | | | | |
| Balance at beginning of financial year | 34,538 | 34,017 | – | – |
| Additional amounts recognised from business combinations occurring during the period | – | 2,279 | – | – |
| Effect of FX translation of subsidiary | 178 | (1,758) | – | – |
| Balance at end of financial year | 34,716 | 34,538 | – | – |
| Net book value | | | | |
| At the beginning of the financial year | 34,538 | 34,017 | – | – |
| At the end of the financial year | 34,716 | 34,538 | – | – |

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 | | Company | |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|
| | <i>2009 \$'000</i> | <i>2008 \$'000</i> | <i>2009 \$'000</i> | <i>2008 \$'000</i> |
| Clive Anthonys | 18,288 | 18,288 | – | – |
| Impact Records | 1,727 | 1,727 | – | – |
| JB New Zealand | 12,422 | 12,244 | – | – |
| Rocket Replacements | 2,279 | 2,279 | – | – |
| Balance at end of financial year | 34,716 | 34,538 | – | – |

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% for JB Australia (2008: 11%), 13.5% for Clive Anthonys (2008: 15.4%) and 13.0% for JB New Zealand (2008: 15.4%). The cash flows

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2009

16. GOODWILL (cont.)

beyond the budget period have been extrapolated using a steady 2% long-term growth rate (2008: 2%) which is consistent with the projected long-term average growth rate for the consumer products market.

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

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

| | Consolidated | | |
|------------------------------------|------------------------------|---|------------------------|
| | <i>Brand names</i> \$'000 | <i>Rights to profit share</i> \$'000 | <i>Total</i> \$'000 |
| 17. OTHER INTANGIBLE ASSETS | | | |
| Gross carrying amount | | | |
| Balance at 1 July 2007 | 43,094 | 3,542 | 46,636 |
| Additions | – | – | – |
| Balance at 1 July 2008 | 43,094 | 3,542 | 46,636 |
| Additions | – | – | – |
| Balance at 30 June 2009 | 43,094 | 3,542 | 46,636 |
| Net book value | | | |
| As at 30 June 2008 | 43,094 | 3,542 | 46,636 |
| As at 30 June 2009 | 43,094 | 3,542 | 46,636 |

The Company does not hold any intangible assets.

Brand names 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 the JB Hi-Fi brand and operate the Highpoint store into the foreseeable future.

The recoverable amount of other intangible assets has been determined based on value in use calculations using the same methodology as detailed in note 16.

| | Consolidated | | Company | |
|--------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | <i>2009</i> \$'000 | <i>2008</i> \$'000 | <i>2009</i> \$'000 | <i>2008</i> \$'000 |
| 18. TRADE AND OTHER PAYABLES | | | | |
| Trade payables ⁽ⁱ⁾ | 246,260 | 184,050 | – | – |
| Other creditors and accruals | 10,094 | 10,327 | – | 15 |
| Deferred income | 13,142 | 9,237 | – | – |
| Goods and services tax (GST) payable | 4,454 | 2,490 | – | – |
| | 273,950 | 206,104 | – | 15 |

(i) The average credit terms on trade payables is 45 days from statement date. No interest is charged on trade payables.

| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| 19. BORROWINGS | | | | |
| Secured - at amortised cost | | | | |
| <i>Current</i> | | | | |
| Hire purchase lease liabilities ⁽ⁱ⁾ (note 28) | - | 10 | - | - |
| Bank overdraft (note 34) ⁽ⁱⁱ⁾ | - | 1,492 | - | - |
| | - | 1,502 | - | - |
| <i>Non-current</i> | | | | |
| Bank loans ⁽ⁱⁱⁱ⁾ | 89,358 | 123,015 | - | - |
| | 89,358 | 123,015 | - | - |
| | 89,358 | 124,517 | - | - |

(i) Secured by the assets leased, the current market value of which exceeds the value of the hire purchase liability.

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

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

| | Consolidated | | Company | |
|-----------------------------------|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| 20. PROVISIONS | | | | |
| <i>Current</i> | | | | |
| Lease provision ⁽ⁱ⁾ | 3,807 | 1,775 | - | - |
| Employee benefits ⁽ⁱⁱ⁾ | 24,428 | 15,754 | - | - |
| | 28,235 | 17,529 | - | - |
| <i>Non-current</i> | | | | |
| Lease provision ⁽ⁱ⁾ | 2,105 | 924 | - | - |
| Employee benefits | 1,724 | 712 | - | - |
| | 3,829 | 1,636 | - | - |
| | 32,064 | 19,165 | - | - |

(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.

(ii) The current provision for employee benefits includes \$2,392 thousand of annual leave accrued but not expected to be taken within 12 months (2008: \$1,334 thousand).

| | Consolidated |
|---|----------------|
| | 2009 \$'000 |
| (a) Movement in lease provisions | |
| Balance at the beginning of the year | 2,699 |
| Additional provisions recognised | 5,191 |
| Provisions used during the year | (1,978) |
| Closing balance | 5,912 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2009

| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| 21. OTHER FINANCIAL LIABILITIES | | | | |
| <i>Current</i> | | | | |
| Interest rate swaps | 1,554 | – | – | – |
| | 1,554 | – | – | – |
| <i>Non-current</i> | | | | |
| Interest rate swaps | 588 | – | – | – |
| | 588 | – | – | – |
| | 2,142 | – | – | – |
| 22. OTHER LIABILITIES | | | | |
| <i>Current</i> | | | | |
| Lease accrual | 531 | 303 | – | – |
| Lease incentive | 1,250 | 882 | – | – |
| | 1,781 | 1,185 | – | – |
| <i>Non-current</i> | | | | |
| Lease accrual | 6,254 | 3,446 | – | – |
| Lease incentive | 8,646 | 5,355 | – | – |
| | 14,900 | 8,801 | – | – |
| | 16,681 | 9,986 | – | – |
| 23. ISSUED CAPITAL | | | | |
| 107,246,666 fully paid ordinary shares (2008: 105,885,372) | 44,783 | 39,544 | 44,783 | 39,544 |

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.

| | 2009 | | 2008 | |
|---|-------------|--------|-------------|--------|
| | No. '000 | \$'000 | No. '000 | \$'000 |
| Fully paid ordinary shares | | | | |
| Balance at beginning of the financial year | 105,885 | 39,544 | 104,629 | 35,883 |
| Issue of shares under employee & executive share option plan (note 9) | 1,362 | 4,159 | 1,256 | 2,960 |
| Transfer from equity settled benefits reserve (note 24) | | 1,080 | | 701 |
| Balance at end of the financial year | 107,247 | 44,783 | 105,885 | 39,544 |

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

(a) Share options

In accordance with the provisions of the employee and executive share option plan, as at 30 June 2009, employees and executives have options over 4,131,958 ordinary shares (of which 3,913,294 were unvested), in aggregate, with various expiry dates.

As at 30 June 2008, employees and executives had options over 3,842,790 ordinary shares (of which 3,622,185 were unvested), in aggregate, with various expiry dates.

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

23. ISSUED CAPITAL (cont.)

(b) Capital management

The Group's policy is to maintain an optimal capital structure to reduce the cost of capital and to ensure the Group has access to adequate capital to sustain the future development of the business.

In order to maintain or adjust the capital structure, the Group may adjust the level of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group's Audit and Risk Management Committee reviews the capital structure on an ongoing basis.

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

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

The Board has adopted a policy of monitoring the dividend payout ratio and targeting a payout ratio of 50% as it seeks to strike a balance between shareholder returns and ensuring adequate capital is retained for the growth of the business so as to maximise long-term shareholder returns.

The Group's return on invested capital and gearing/leverage ratios as at 30 June 2009 and 30 June 2008 were as follows:

| | Consolidated | |
|---|---------------------|----------------|
| | 2009 \$'000 | 2008 \$'000 |
| (i) Return on invested capital | | |
| Profit before tax | 135,493 | 93,960 |
| Net finance costs | 6,474 | 8,289 |
| EBIT | 141,967 | 102,250 |
| Borrowings | 89,358 | 124,517 |
| Cash and cash equivalents | 35,790 | – |
| Net debt | 53,568 | 124,517 |
| Total equity | 229,252 | 163,890 |
| Invested capital | 282,820 | 288,407 |
| Return on invested capital | 50.2% | 35.5% |
| (ii) Gearing/leverage | | |
| Senior debt | 90,000 | 123,172 |
| Bank overdraft | – | 1,492 |
| Hire purchase liabilities | – | 10 |
| | 90,000 | 124,674 |
| EBIT | 141,967 | 102,249 |
| Depreciation and amortisation | 18,749 | 14,741 |
| EBITDA | 160,715 | 116,990 |
| Gearing/leverage | 0.56 | 1.07 |
| Gearing/leverage (adjusted for cash holdings) | 0.34 | 1.07 |

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2009

23. ISSUED CAPITAL (cont.)

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

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

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

| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| 24. RESERVES | | | | |
| Equity-settled benefits | 4,910 | 2,991 | 4,910 | 2,991 |
| Foreign currency translation | (3,049) | (1,609) | – | – |
| Hedge – interest rate swaps | (1,293) | 284 | – | – |
| Hedge – net investment | 850 | 850 | – | – |
| Other reserve | (1,225) | (1,225) | – | – |
| | 193 | 1,291 | 4,910 | 2,991 |
| (a) Equity-settled benefits reserve | | | | |
| Balance at beginning of the financial year | 2,991 | 1,711 | 2,991 | 1,711 |
| Share-based payment | 2,999 | 1,981 | 2,999 | 1,981 |
| Transfer to issued capital | (1,080) | (701) | (1,080) | (701) |
| Balance at end of the financial year | 4,910 | 2,991 | 4,910 | 2,991 |

The equity-settled benefits reserve arises on the grant of share options to employees and executives under the employee and executive share option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 9 to the financial statements.

| | Consolidated | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| (b) Foreign currency translation reserve | | | | |
| Balance at beginning of the financial year | (1,609) | 324 | – | – |
| Translation of foreign operations | (1,440) | (1,933) | – | – |
| Balance at end of the financial year | (3,049) | (1,609) | – | – |

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.

24. RESERVES (cont.)

| | Consolidated | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| (c) Hedging reserve – interest rate swaps | | | | |
| Balance at beginning of the financial year | 284 | 542 | – | – |
| (Loss)/gain recognised (net of tax) | (1,362) | 204 | – | – |
| Transferred to profit or loss (net of tax) ⁽ⁱ⁾ | (215) | (462) | – | – |
| Balance at end of the financial year | (1,293) | 284 | – | – |

(i) Included within finance costs.

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. 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.

| | Consolidated | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| (d) Hedging reserve – net investment | | | | |
| Balance at beginning of the financial year | 850 | (233) | – | – |
| Gain/(loss) recognised: | | | | |
| Foreign currency net investment loan (net of tax) | – | 1,168 | – | – |
| Hedge ineffectiveness (net of tax) ⁽ⁱ⁾ | – | (85) | – | – |
| Balance at end of the financial year | 850 | 850 | – | – |

(i) Included within other expenses.

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.

| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| (e) Other reserve | | | | |
| Balance at beginning of the financial year | (1,225) | – | – | – |
| Acquisition of minority interest | – | (1,225) | – | – |
| Balance at end of the financial year | (1,225) | (1,225) | – | – |

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

| | Consolidated | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| 25. RETAINED EARNINGS | | | | |
| Balance at beginning of the financial year | 123,055 | 74,883 | 353 | 73 |
| Net profit attributable to members of the parent entity | 94,438 | 65,085 | 33,278 | 17,193 |
| Dividends provided for or paid (note 27) | (33,217) | (16,913) | (33,217) | (16,913) |
| Balance at end of the financial year | 184,276 | 123,055 | 414 | 353 |

| | Consolidated | |
|-------------------------------|---------------------------------------|---------------------------------------|
| | <i>2009</i> <i>Cents per share</i> | <i>2008</i> <i>Cents per share</i> |
| 26. EARNINGS PER SHARE | | |
| Basic earnings per share | 88.26 | 61.78 |
| Diluted earnings per share | 87.63 | 60.68 |

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

| | Consolidated | |
|--|------------------------------|------------------------------|
| | <i>2009</i> <i>\$'000</i> | <i>2008</i> <i>\$'000</i> |
| Earnings used in the calculation of basic earnings per share | 94,438 | 65,085 |

| | Consolidated | |
|---|--------------------------------|--------------------------------|
| | <i>2009</i> <i>No. '000</i> | <i>2008</i> <i>No. '000</i> |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 106,995 | 105,348 |

Diluted earnings per share

The earnings used in the calculation of diluted earnings per share are as follows:

| | Consolidated | |
|--|------------------------------|------------------------------|
| | <i>2009</i> <i>\$'000</i> | <i>2008</i> <i>\$'000</i> |
| Earnings used in the calculation of diluted earnings per share | 94,438 | 65,085 |

The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

| | Consolidated | |
|--|--------------------------------|--------------------------------|
| | <i>2009</i> <i>No. '000</i> | <i>2008</i> <i>No. '000</i> |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 106,995 | 105,348 |
| Shares deemed to be issued for no consideration in respect of: | | |
| Employee options | 774 | 1,907 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 107,769 | 107,255 |

| | 2009 | | 2008 | |
|--|------------------------|---------------------|------------------------|---------------------|
| | <i>Cents per share</i> | <i>Total \$'000</i> | <i>Cents per share</i> | <i>Total \$'000</i> |
| 27. DIVIDENDS | | | | |
| Recognised amounts | | | | |
| <i>Fully paid ordinary shares</i> | | | | |
| Interim dividend: | | | | |
| Franked to 100% at 30% (2008: 100% at 30%) | 15.0 | 16,083 | 10.0 | 10,635 |
| Final dividend: | | | | |
| Franked to 100% at 30% (2008: 100% at 30%) | 16.0 | 17,134 | 6.0 | 6,278 |
| | | 33,217 | | 16,913 |
| Unrecognised amounts | | | | |
| <i>Fully paid ordinary shares</i> | | | | |
| Final dividend: | | | | |
| Franked to 100% at 30% (2008: 100% at 30%) | 29.0 | 31,102 | 16.0 | 16,942 |

In respect of the financial year ended 30 June 2009, the directors have recommended the payment of a final dividend of 29.0 cents per share franked to 100% at 30% corporate income tax rate. The record date is 21 August 2009.

| | Company | |
|--|--------------------|--------------------|
| | <i>2009 \$'000</i> | <i>2008 \$'000</i> |
| Adjusted franking account balance | 102,866 | 61,619 |
| Impact on franking account balance of dividends not recognised | 13,329 | 7,261 |
| Income tax consequences of unrecognised dividends | – | – |

28. LEASES

(a) Hire purchase liabilities

Leasing arrangements

Hire purchase leases principally relate to motor vehicles and store fit out expenditure with lease terms of between three and five years. The Group has the option to purchase the equipment for a nominal amount at the conclusion of the leasing arrangements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2009

28. LEASES (cont.)

(b) Finance lease liabilities

| | Minimum future lease payments | | | | Present value of minimum future lease payments | | | |
|--|-------------------------------|----------------|----------------|----------------|--|----------------|----------------|----------------|
| | Consolidated | | Company | | Consolidated | | Company | |
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| No later than one year | - | 12 | - | - | - | 10 | - | - |
| Later than one year and not later than five years | - | - | - | - | - | - | - | - |
| Later than five years | - | - | - | - | - | - | - | - |
| Minimum future lease payments ⁽ⁱ⁾ | - | 12 | - | - | - | 10 | - | - |
| Less future finance charges | - | (2) | - | - | - | - | - | - |
| Present value of minimum lease payments | - | 10 | - | - | - | 10 | - | - |
| Included in the financial statements as: (note 19) | | | | | | | | |
| Current other liabilities | | | | | - | 10 | - | - |
| Non-current other liabilities | | | | | - | - | - | - |
| | | | | | - | 10 | - | - |

(i) Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual.

(c) Operating leases

Leasing arrangements

Operating leases relate to stores with new lease terms of between two to thirteen years, with, in some cases an option to extend. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

Non-cancellable operating lease commitments

| | Consolidated | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| Not longer than one year | 43,951 | 35,123 | - | - |
| Longer than one year and not longer than five years | 156,491 | 123,261 | - | - |
| Longer than five years | 102,943 | 86,329 | - | - |
| | 303,385 | 244,713 | - | - |

29. SUBSIDIARIES

| Name of entity | Country of incorporation | Ownership interest | |
|---|--------------------------|--------------------|-----------|
| | | 2009 % | 2008 % |
| Parent entity | | | |
| JB Hi-Fi Limited ⁽ⁱ⁾ | Australia | | |
| Subsidiaries | | | |
| JB Hi-Fi Group Pty Ltd ⁽ⁱⁱ⁾ | Australia | 100 | 100 |
| JB Hi-Fi (A) Pty Ltd ⁽ⁱⁱ⁾ | Australia | 100 | 100 |
| Clive Anthonys Pty Ltd ⁽ⁱⁱ⁾ | Australia | 100 | 100 |
| Rocket Replacements Pty Ltd ⁽ⁱⁱ⁾ | Australia | 100 | 100 |
| JB Hi-Fi Group (NZ) Limited | New Zealand | 100 | 100 |
| JB Hi-Fi NZ Limited | New Zealand | 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.

(a) Deed of cross guarantee

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

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

| | Consolidated | |
|------------------------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 |
| Income statement | | |
| Revenue | 2,204,964 | 1,735,060 |
| Cost of sales | (1,721,994) | (1,350,495) |
| Gross profit | 482,970 | 384,565 |
| Other income | 1,385 | 1,275 |
| Sales and marketing expenses | (216,711) | (181,857) |
| Occupancy expenses | (78,301) | (60,308) |
| Administration expenses | (18,986) | (16,703) |
| Finance costs | (6,980) | (7,672) |
| Other expenses | (23,754) | (19,012) |
| Profit before tax | 139,623 | 100,288 |
| Income tax expense | (42,286) | (30,693) |
| Profit for the year | 97,337 | 69,595 |

29. SUBSIDIARIES (cont.)

| | Consolidated | |
|---|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 |
| Balance sheet | | |
| Current assets | | |
| Cash and cash equivalents | 35,405 | – |
| Trade and other receivables | 56,478 | 49,772 |
| Inventories | 301,056 | 254,549 |
| Other | 5,423 | 5,089 |
| Total current assets | 398,362 | 309,410 |
| Non-current assets | | |
| Investments accounted for using the equity method | – | – |
| Other financial assets | 51,644 | 36,457 |
| Plant and equipment | 125,434 | 104,455 |
| Deferred tax assets | 14,144 | 8,332 |
| Goodwill | 22,295 | 22,295 |
| Intangible assets | 46,636 | 46,636 |
| Total non-current assets | 260,153 | 218,175 |
| Total assets | 658,515 | 527,585 |
| Current liabilities | | |
| Trade and other payables | 262,172 | 197,698 |
| Borrowings | – | 4,432 |
| Other financial liabilities | 1,554 | – |
| Current tax liabilities | 18,204 | 12,173 |
| Provisions | 27,061 | 17,401 |
| Other | 1,553 | 1,185 |
| Total current liabilities | 310,544 | 232,889 |
| Non-current liabilities | | |
| Borrowings | 89,358 | 96,843 |
| Other financial liabilities | 588 | – |
| Provisions | 3,829 | 1,636 |
| Other | 14,393 | 26,116 |
| Total non-current liabilities | 108,168 | 124,595 |
| Total liabilities | 418,712 | 357,484 |
| Net assets | 239,803 | 170,101 |
| Equity | | |
| Issued capital | 44,783 | 39,544 |
| Reserves | 3,242 | 2,900 |
| Retained earnings | 191,778 | 127,657 |
| Total equity | 239,803 | 170,101 |

30. ACQUISITION OF BUSINESSES

| <i>Name of businesses acquired</i> | <i>Principal activity</i> | <i>Date of acquisition</i> | <i>Proportion of shares acquired %</i> | <i>Cost of acquisition \$'000</i> | <i>Contribution to NPAT \$'000</i> |
|------------------------------------|--|----------------------------|--|-----------------------------------|------------------------------------|
| 2009 | No businesses acquired in current year | | | — | — |
| 2008 | | | | | |
| Rocket Replacements Pty Ltd | Insurance Replacements | 2 July 2007 | 50% ⁽ⁱ⁾ | 2,357 | 1,271 |

(i) Acquired a 50% stake on 8 July 2004. The remaining 50% was acquired on 2 July 2007.

(a) Rocket Replacements Pty Ltd

| <i>Net assets acquired</i> | <i>Book and fair value \$'000</i> |
|--|-----------------------------------|
| Current assets: | |
| Cash | 639 |
| Trade & other receivables | 2,951 |
| Inventories | 1,155 |
| Other | 13 |
| Current liabilities: | |
| Trade & other payables | (3,203) |
| Provisions | (36) |
| Non-current liabilities: | |
| Borrowings | (1,200) |
| Provisions | (2) |
| | 317 |
| Cost of acquisition | 2,357 |
| | 2,040 |
| Balance of equity accounted investment | 239 |
| Goodwill on acquisition | 2,279 |

31. SEGMENT INFORMATION

(a) Information on business segments

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

31. SEGMENT INFORMATION (cont.)

(b) Information on geographical segments

The Group operates in two principal geographical segments – Australia and New Zealand. The Group's revenue from external customers and information about its segment assets by geographical location is detailed below:

| 2009 | Australia \$'000 | New Zealand \$'000 | Total \$'000 |
|--|----------------------------|------------------------------|------------------------|
| Revenue from external customers | 2,204,964 | 122,302 | 2,327,266 |
| Segment result before interest and tax | 144,866 | (2,899) | 141,967 |
| Interest revenue | | | 1,562 |
| Finance costs | | | (8,036) |
| Profit before income tax | | | 135,493 |
| Income tax expense | | | (41,055) |
| Net profit after tax | | | 94,438 |
| Segment assets | 606,447 | 55,204 | 661,651 |
| Segment liabilities | 418,284 | 14,115 | 432,399 |
| Acquisition of segment assets | 40,986 | 3,458 | 44,444 |
| Segment depreciation and amortisation | 17,354 | 1,395 | 18,749 |
| | | | |
| 2008 | Australia \$'000 | New Zealand \$'000 | Total \$'000 |
| Revenue from external customers | 1,735,060 | 93,504 | 1,828,564 |
| Segment result before interest and tax | 107,155 | (4,905) | 102,250 |
| Interest revenue | | | 1,007 |
| Finance costs | | | (9,297) |
| Profit before income tax | | | 93,960 |
| Income tax expense | | | (28,875) |
| Net profit after tax | | | 65,085 |
| Segment assets | 487,003 | 48,832 | 535,835 |
| Segment liabilities | 334,716 | 37,229 | 371,945 |
| Acquisition of segment assets | 45,309 | 6,264 | 51,573 |
| Segment depreciation and amortisation | 13,830 | 911 | 14,741 |

32. 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 29.

32. RELATED PARTY TRANSACTIONS (cont.)

(c) Key management personnel equity holdings

Details of key management personnel equity holdings are as follows:

Fully paid ordinary shares of JB Hi-Fi Limited

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

(i) Group management

| | <i>Balance at 1 July 2007 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 2008 No.</i> | <i>Balance held nominally No.</i> |
|--------------|---|--|--|---------------------------------|--|---|
| 2008 | | | | | | |
| P. Elliott | 348,600 | – | – | (98,600) | 250,000 | 11,400 |
| J. King | 32,258 | – | – | – | 32,258 | 32,258 |
| G. Levin | 100,000 | – | – | (50,000) | 50,000 | – |
| W. Fraser | 6,451 | – | – | – | 6,451 | 6,451 |
| G. Richards | – | – | – | 23,000 | 23,000 | 23,000 |
| R. Uechtritz | 4,000,000 | – | 322,106 | (1,207,106) | 3,115,000 | – |
| T. Smart | 1,844,345 | – | 228,201 | (349,590) | 1,722,956 | – |
| F. Garonzi | 326,625 | – | 112,017 | (86,625) | 352,017 | 160,000 |
| R. Murray | 119,959 | – | 145,350 | (102,909) | 162,400 | 750 |
| S. Browning | 136,625 | – | 162,017 | (171,625) | 127,017 | – |
| | 6,914,863 | – | 969,691 | (2,043,455) | 5,841,099 | 233,859 |

Share options of JB Hi-Fi Limited

| | <i>Balance at 1 July 2008 No.</i> | <i>Granted as compensation No.</i> | <i>Exercised No.</i> | <i>Balance at 30 June 2009 No.</i> | <i>Balance vested at 30 June 2009 No.</i> | <i>Options vested during year No.</i> |
|-----------------------------|---|--|--------------------------|--|---|---|
| 2009 | | | | | | |
| R. Uechtritz ⁽ⁱ⁾ | 679,533 | 221,555 | (273,773) | 627,315 | – | 273,773 |
| T. Smart ⁽ⁱ⁾ | 491,104 | 147,703 | (198,201) | 440,606 | – | 198,201 |
| R. Murray | 314,234 | 124,430 | (150,683) | 287,981 | – | 150,683 |
| S. Browning | 352,234 | 123,775 | (188,683) | 287,326 | – | 188,683 |
| S. Duff | 30,000 | 35,000 | – | 65,000 | – | – |
| | 1,867,105 | 652,463 | (811,340) | 1,708,228 | – | 811,340 |

(i) Excludes any options that may be approved by the Board in August 2009. The issue of any options to R. Uechtritz and T. Smart, both executive directors of the Company, is also subject to shareholder approval at the Company's Annual General Meeting in October 2009.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 30 June 2009

32. RELATED PARTY TRANSACTIONS (cont.)

| 2008 | <i>Balance at 1 July 2007 No.</i> | <i>Granted as compensation No.</i> | <i>Exercised No.</i> | <i>Balance at 30 June 2008 No.</i> | <i>Balance vested at 30 June 2008 No.</i> | <i>Options vested during year No.</i> |
|-----------------------------|---|--|--------------------------|--|---|---|
| R. Uechtritz ⁽ⁱ⁾ | 763,068 | 238,571 | (322,106) | 679,533 | – | 322,106 |
| T. Smart ⁽ⁱ⁾ | 560,258 | 159,047 | (228,201) | 491,104 | – | 228,201 |
| F. Garonzi ⁽ⁱ⁾ | 329,426 | – | (112,017) | 217,409 | – | 112,017 |
| R. Murray ⁽ⁱ⁾ | 374,759 | 84,825 | (145,350) | 314,234 | 12,000 | 157,350 |
| S. Browning ⁽ⁱ⁾ | 429,426 | 84,825 | (162,017) | 352,234 | 50,000 | 212,017 |
| | 2,456,937 | 567,268 | (969,691) | 2,054,514 | 62,000 | 1,031,691 |

(i) Excludes any options that were approved by the Board in August 2008. The issue of any options to R. Uechtritz and T. Smart, both executive directors of the Company, was also subject to shareholder approval at the Company's Annual General Meeting in October 2008.

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

During the financial year 811,340 (2008: 969,691) options were exercised by key management personnel at a weighted average exercise price of \$2.97 (2008: \$2.25) per ordinary share in JB Hi-Fi Limited. No amounts remain unpaid on the options exercised during the financial year at year end.

(d) Terms and conditions

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.

33. SUBSEQUENT EVENTS

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

34. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of cash and cash equivalents

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

| | Consolidated | | Company | |
|---------------------------|------------------------|------------------------|------------------------|------------------------|
| | <i>2009 \$'000</i> | <i>2008 \$'000</i> | <i>2009 \$'000</i> | <i>2008 \$'000</i> |
| Cash and cash equivalents | 35,790 | – | 214 | 421 |
| Bank overdraft | – | (1,492) | – | – |
| | 35,790 | (1,492) | 214 | 421 |

(b) Businesses acquired

During the previous financial year, the Group acquired the remaining 30% interest in Clive Anthonys Pty Ltd and the remaining 50% interest in Rocket Replacements Pty Ltd. The net cash outflow for the acquisitions was \$6,917,000 and \$1,268,000 respectively.

34. NOTES TO THE CASH FLOW STATEMENT (cont.)

| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| (c) Reconciliation of profit for the period to net cash flows from operating activities | | | | |
| Profit for the period | 94,438 | 65,085 | 33,278 | 17,193 |
| Loss on sale or disposal of non-current assets | 2,063 | 2,917 | – | – |
| Depreciation and amortisation | 18,749 | 14,741 | – | – |
| Equity settled share-based payment | 2,999 | 1,981 | – | – |
| Fair value gain on derivatives | 307 | (660) | – | – |
| Foreign exchange differences | – | 1 | – | – |
| Income tax paid in relation to other entities in the tax-consolidated group | – | – | (41,594) | (27,747) |
| Increase in current tax liability | 6,031 | 4,597 | 6,031 | 4,977 |
| Decrease in deferred tax balances | (6,909) | (3,468) | – | – |
| Changes in net assets and liabilities, net of effects from acquisition of businesses: | | | | |
| (Increase)/decrease in assets: | | | | |
| Current receivables | (6,966) | (4,868) | – | – |
| Current inventories | (52,454) | (59,534) | – | – |
| Other current assets | 142 | (1,779) | – | – |
| Other non-current assets | – | – | (5,365) | (4,430) |
| Increase/(decrease) in liabilities: | | | | |
| Current payables | 67,540 | 17,514 | (15) | 5 |
| Current provisions | 10,716 | 3,003 | – | – |
| Other current liabilities | 2,152 | (59) | – | – |
| Non-current provisions | 2,193 | 952 | – | – |
| Other non-current liabilities | 4,576 | 2,014 | – | – |
| Net cash from operating activities | 145,577 | 42,437 | (7,665) | (10,002) |

35. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives

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

The Group seeks to minimise the effects of these risks, by using various financial instruments, including derivative financial instruments. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Group's policies approved by the Board of directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the Audit and Risk Management Committee on a continuous basis.

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

35. FINANCIAL INSTRUMENTS (cont.)

(a) Financial risk management objectives (cont.)

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

| | Consolidated | | Company | |
|-----------------------------------|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| Financial assets | | | | |
| Cash and cash equivalents | 35,790 | – | 214 | 421 |
| Trade and other receivables | 60,269 | 52,996 | – | – |
| Loans to subsidiaries | – | – | 32,514 | 21,072 |
| Interest rate swaps (net settled) | – | 606 | – | – |
| Financial liabilities | | | | |
| Trade and other payables | 260,804 | 196,867 | – | 15 |
| Bank loans | 89,358 | 123,015 | – | – |
| Bank overdraft | – | 1,492 | – | – |
| Interest rate swaps (net settled) | 2,142 | – | – | – |
| Hire purchase lease liabilities | – | 10 | – | – |

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.

(c) Market risks

(i) Foreign currency risk management

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

(ii) Interest rate risk management

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

Interest rate swap contracts

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

35. FINANCIAL INSTRUMENTS (cont.)

(c) Market risks (cont.)

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

Cash flow hedges

| Outstanding floating for fixed contracts | Average contracted fixed interest rate | | Notional principal amount | | Fair value | |
|--|--|--------|---------------------------|-------------|-------------|-------------|
| | 2009 % | 2008 % | 2009 # \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| Less than 1 year | 5.6 | 5.7 | 70,000 | 55,000 | (1,554) | 606 |
| 1 to 3 years | 5.6 | – | 70,000 | – | (588) | – |
| | | | | | (2,142) | 606 |

(i) The Company has executed two - 3 year interest rate swaps with a total notional principal amount of \$70,000,000. These swaps have current and non-current elements as disclosed above.

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

The Company does not enter into derivative financial instruments.

As at the reporting date the Group and Company had the following financial assets and financial liabilities with variable rates outstanding:

| | Consolidated | | Company | |
|---|--------------|-------------|-------------|-------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| Financial assets | | | | |
| Loans to subsidiaries | – | – | 32,514 | 21,072 |
| Interest rate swaps (notional principal amount) | 70,000 | 55,000 | – | – |
| | 70,000 | 55,000 | 32,514 | 21,072 |
| Financial liabilities | | | | |
| Bank overdraft | – | 1,492 | – | – |
| Bank loans | 89,358 | 123,015 | – | – |
| | 89,358 | 124,507 | – | – |
| | (19,358) | (69,507) | 32,514 | 21,072 |

Interest rate sensitivity analysis

The following table details the Group's sensitivity to a 50 basis point increase and decrease in interest rates. 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.

35. FINANCIAL INSTRUMENTS (cont.)

(c) Market risks (cont.)

| | Profit after tax | | Equity (reserves) | |
|--|------------------|----------------|-------------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| Consolidated | | | | |
| 50 basis point increase in interest rates with all other variables held constant | (70) | (246) | 572 | 63 |
| 50 basis point decrease in interest rates with all other variables held constant | 70 | 246 | (572) | (63) |

| | Profit after tax | | Equity (reserves) | |
|--|------------------|----------------|-------------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| Company | | | | |
| 50 basis point increase in interest rates with all other variables held constant | 33 | 39 | – | – |
| 50 basis point decrease in interest rates with all other variables held constant | (33) | (39) | – | – |

The decrease in the Group's sensitivity to interest rate movements has arisen as a result of the repayment of borrowings during the current financial year combined with a higher level of fixed interest rate cover over the remaining borrowings.

(d) Liquidity risk management

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

Maturity of financial assets and 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.

35. FINANCIAL INSTRUMENTS (cont.)

(d) Liquidity risk management (cont.)

| 2009 | Weighted average effective interest rate % | 6 months or less \$'000 | 6 months to 1 year \$'000 | 1 – 2 years \$'000 | 2 – 5 years \$'000 | 5+ years \$'000 | Total \$'000 |
|-----------------------------------|--|-------------------------------|---------------------------------|-----------------------|-----------------------|--------------------|-----------------|
| Financial assets | | | | | | | |
| Cash and cash equivalents | 2.60% | 35,790 | – | – | – | – | 35,790 |
| Trade and other receivables | – | 60,269 | – | – | – | – | 60,269 |
| Cash deposits | – | – | – | – | – | – | – |
| Interest rate swaps (net settled) | – | – | – | – | 44 | – | 44 |
| | | 96,059 | – | – | 44 | – | 96,103 |
| Financial liabilities | | | | | | | |
| Trade and other payables | – | 260,804 | – | – | – | – | 260,804 |
| Bank loans | 6.77% | 2,167 | 2,167 | 4,335 | 91,987 | – | 100,656 |
| Interest rate swaps (net settled) | – | 863 | 744 | 673 | – | – | 2,280 |
| | | 263,834 | 2,911 | 5,008 | 91,987 | – | 363,740 |
| | | (167,775) | (2,911) | (5,008) | (91,943) | – | (267,637) |

| 2008 | Weighted average effective interest rate % | 6 months or less \$'000 | 6 months to 1 year \$'000 | 1 – 2 years \$'000 | 2 – 5 years \$'000 | 5+ years \$'000 | Total \$'000 |
|-----------------------------------|--|-------------------------------|---------------------------------|-----------------------|-----------------------|--------------------|-----------------|
| Financial assets | | | | | | | |
| Trade and other receivables | – | 52,996 | – | – | – | – | 52,996 |
| Cash deposits | – | 1,609 | – | – | – | – | 1,609 |
| Interest rate swaps (net settled) | – | 606 | – | – | – | – | 606 |
| | | 55,211 | – | – | – | – | 55,211 |
| Financial liabilities | | | | | | | |
| Trade and other payables | – | 196,867 | – | – | – | – | 196,867 |
| Bank loans | 7.33% | 5,266 | 5,266 | 128,437 | – | – | 138,969 |
| Bank overdraft | 8.40% | 1,492 | – | – | – | – | 1,492 |
| Hire purchase lease liabilities | 7.20% | 10 | – | – | – | – | 10 |
| | | 203,635 | 5,266 | 128,437 | – | – | 337,338 |
| | | (148,424) | (5,266) | (128,437) | – | – | (282,127) |

35. FINANCIAL INSTRUMENTS (cont.)

In respect of the Company, the loans receivable from subsidiaries of \$32,514,000 (2008: \$21,072,000) are repayable at call, with a weighted average effective interest rate of 7.50% (2008: 7.50%).

Financing facilities available

The Group and the Company had access to the following borrowing facilities at balance date:

| | Consolidated | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| Secured bank overdraft facility: | | | | |
| amount used | – | 1,492 | – | – |
| amount unused | 63,046 | 58,508 | – | – |
| | 63,046 | 60,000 | – | – |
| Secured indemnity guarantees: | | | | |
| amount used | 1,768 | 1,948 | – | – |
| amount unused | 143 | – | – | – |
| | 1,911 | 1,948 | – | – |
| Secured bank loan facilities (senior debt): | | | | |
| amount used ⁽ⁱ⁾ | 90,000 | 123,172 | – | – |
| amount unused | 55,000 | 21,828 | – | – |
| | 145,000 | 145,000 | – | – |

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

(e) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Audit and Risk Management Committee annually.

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

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

(f) Fair value of financial instruments

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

36. DIRECTORY

Registered office / principal place of business

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

ADDITIONAL STOCK EXCHANGE INFORMATION

as at 6 August 2009

Distribution of holders of equity securities

| | <i>Total Holders</i> | <i>Units</i> | <i>% Issued Capital</i> |
|---------------------------------------|----------------------|--------------|-------------------------|
| 1 – 1,000 | 6,742 | 2,785,495 | 2.60 |
| 1,001 – 5,000 | 2,791 | 6,533,423 | 6.09 |
| 5,001 – 10,000 | 362 | 2,652,204 | 2.47 |
| 10,001 – 100,000 | 214 | 5,842,354 | 5.45 |
| 100,001 and over | 44 | 89,433,190 | 83.39 |
| Total | 10,153 | 107,246,666 | 100.00 |
| Holding less than a marketable parcel | 72 | 706 | |

Substantial shareholders

| <i>Ordinary shareholders</i> | Fully paid ordinary shares | |
|---|-----------------------------------|-----------------------|
| | <i>Number</i> | <i>Voting Power %</i> |
| Barclays Global Investors Australia Limited | 9,967,016 | 9.29 |
| Concord Capital | 7,418,961 | 6.92 |
| | 17,385,977 | 16.21 |

Twenty largest holders of ordinary securities

| <i>Ordinary shareholders</i> | Fully paid ordinary shares | |
|---|-----------------------------------|----------|
| | <i>Number</i> | <i>%</i> |
| 1. J P MORGAN NOMINEES AUSTRALIA LIMITED | 22,390,995 | 20.88 |
| 2. NATIONAL NOMINEES LIMITED | 18,727,939 | 17.46 |
| 3. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 16,969,660 | 15.82 |
| 4. ANZ NOMINEES LIMITED <CASH INCOME A/C> | 5,284,559 | 4.93 |
| 5. COGENT NOMINEES PTY LIMITED | 3,869,943 | 3.61 |
| 6. UBS NOMINEES PTY LTD | 2,741,036 | 2.56 |
| 7. MR RICHARD UECHTRITZ | 2,000,000 | 1.86 |
| 8. AUSTRALIAN REWARD INVESTMENT ALLIANCE | 1,948,649 | 1.82 |
| 9. CITICORP NOMINEES PTY LIMITED | 1,661,045 | 1.55 |
| 10. MR TERRY SMART | 1,531,157 | 1.43 |
| 11. SHAWVILLE PTY LTD | 1,178,100 | 1.10 |
| 12. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2 | 1,069,885 | 1.00 |
| 13. AMP LIFE LIMITED | 961,285 | 0.90 |
| 14. CITICORP NOMINEES PTY LTD <CWLTH BANK OFF SUPER A/C> | 925,668 | 0.86 |
| 15. QUEENSLAND INVESTMENT CORPORATION | 915,557 | 0.85 |
| 16. ANZ NOMINEES LIMITED <SL CASH INCOME A/C> | 719,430 | 0.67 |
| 17. CITICORP NOMINEES PTY LIMITED <CFS WSLE IMPUTATION FND A/C> | 646,423 | 0.60 |
| 18. CITICORP NOMINEES PTY LIMITED <CFS WSLE AUST SHARE FND A/C> | 580,778 | 0.54 |
| 19. CITICORP NOMINEES PTY LIMITED <CFSIL CWLTH AUST SHS 19 A/C> | 477,856 | 0.45 |
| 20. CITICORP NOMINEES PTY LIMITED <CFS IMPUTATION FUND A/C> | 457,744 | 0.43 |
| | 85,057,709 | 79.31 |

This page has been left intentionally blank

COMPANY SECRETARY

Richard Murray

SHARE REGISTRY

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

REGISTERED & PRINCIPAL ADMINISTRATION OFFICE

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

STORE LOCATIONS ⁽ⁱ⁾

Australia

VIC

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

ACT

Belconnen
Canberra City
Fyshwick
Fyshwick (CA)
Woden

NSW

Blacktown
Bondi
Castle Hill
Castle Hill (CA)
Chatswood
Erina
Glendale
Hornsby
Kotara
Leichhardt
Liverpool
Macarthur Square
Macquarie
Miranda
Mt Druitt
Newcastle
Parramatta
Parramatta Centre
Penrith
Rouse Hill
Strand Arcade
Sydney City
Tweed City
Tweed Heads (CA)
Tuggerah
Warringah Mall
Warrawong

WA

Cannington
Carousel
Claremont
Cockburn
Joondalup
Malaga
Midland Central
Myaree
Osborne Park
Perth City (2x)
Rockingham
Whitford

QLD

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

SA

Adelaide City
Colonnades
Elizabeth
Gepps Cross
Marion
Modbury
West Lakes

NT

Casuarina

TAS

Hobart

New Zealand

Albany
Albany (H&S)
Auckland (Queens St)
Botany
Botany (H&S)
Hamilton
Lynnmall (H&S)
Manukau
Manukau (H&S)
New Lynn
St Lukes
St Lukes (H&S)
Wellington
Westgate (H&S)

(i) JB Hi-Fi unless otherwise stated (current as at 30 June 2009).



jbhifi.com.au