

Chairman's Address 2004 Annual General Meeting

In summary, our first year as a listed company has been a very successful one. Not only have we exceeded our prospectus forecasts but we have built upon the foundations of a very successful business. Richard will run through the financial results for the year a little later which show exceptional growth on the prior corresponding period.

The JB Hi-Fi model is founded upon the company's ability to merchandise the broadest range of branded product at every day low prices. To do this a number of critical things must happen:

1. We must attract and retain the best suppliers in the industry. JB Hi-Fi has been fortunate to represent the interests of all the leading suppliers within our chosen product categories, suppliers such as Sony, LG, Panasonic, Pioneer and Samsung. We have a history of demonstrably increasing the sales of our supplier partners both through our national roll out of new stores and strong growth from existing stores. This growth is not a "zero sum gain" where market share is merely taken from competitors. In many instances we have demonstrated the company's ability to grow the total market. With approximately \$700 million in sales likely to be achieved this current year the company has substantial buying power.
2. We must have the lowest cost base. For the year ended 30 June 2004 the company's operating expenditure as a percentage of sales was 17.8%, significantly lower than our major competitors. This has been achieved by a low cost mentality that pervades the company from the shop floor to the CEO, the high sales volume per square metre we are able to generate from our stores and our increasing scale. The company as a whole continually searches for ways to control its cost base. Not only does a low cost base support an every day low price strategy, it will also insulate the earnings from any decline in overall market expenditure.

3. We must secure strong retail locations. Although the company's history was as a destination store, more recently JB Hi-Fi has become a sought after tenant for shopping centres. The high traffic volume that a JB H-Fi store generates and being able to bring consumer electronics to the centres, has enabled the company to maintain a rent to sales ratio of less than 2%. We opened six stores in the year ended 30 June 2004 and as Richard will tell you our property pipeline remains very strong.

4. We must attract and retain the very best staff. The company currently employs in excess of 1,650 people. Although sounding trite, it is our staff that delivers the in-store experience, merchandises the store, buys receives and stores the stock and the keeps the stores functioning. The challenge with any fast growing company is to continue to recruit top performers that will fit and perpetuate the JB culture. We have been fortunate to have a reputation within the industry as a good employer, providing plenty of opportunity for those willing to work hard. The long term success of the company will rise or fall on our ability to employ the very best.

Whilst the contribution to earnings from new stores is significant, the performance of the underlying business remains very strong. The company recorded comparable store growth of 8.0% for the year. This reflects the maturing of recently opened stores but importantly even our most established stores recorded good growth. In the markets in which we operate we benefit greatly from technology driving replacement markets such as digital cameras and flat screen TVs and opening whole new markets such as DVD players and software. This is likely to remain a strong contributor to growth for the foreseeable future as household penetration rates of devices such as DVD players and slim line televisions remain well below saturation levels.

In software not only have we seen terrific growth in DVD Movies but Music (both CD and DVD) also generated solid like for like growth. JB Hi-Fi has for many years been one of only a few retailers of back catalogue music which gives it a unique position in the market place. With an ever increasing back catalogue of DVD titles becoming available, the company is well positioned to replicate this success in what is already a very important market category. It is likely by the end of this year, we will sell more DVD movies, than Music.

There has been some discussion in the media and trade regarding the impact of price deflation. Our experience to date has overall been positive. Price deflation in the early stages of a new technology is a key driver of increased penetration rates as prices fall through the so called "sweet spot". This has certainly been the case for slim line TVs that have more than halved in price over the last two years. In circumstances such as this, many customers are trading up to a higher priced product that offers enhanced features as is the case with recordable DVD. However, as a product approaches maturity further falls in price are less likely to be offset by an increase in unit sales. This has not been a problem to date but is likely to arise should price deflation continue in categories such as digital cameras.

The company announced on the 5th August 2004 the acquisition of a 70% interest in Clive Anthonys. This acquisition takes the company into the white goods, cooking and computer markets, which in aggregate are significantly larger than the markets JB currently contests.

In Clive Savage and his management, JB has secured some of the most widely respected electrical retailers in the country.

With the acquisition multiple of 4.6 times normalised 2004 EBIT, it is expected that the Clive Anthonys business will be immediately earnings accretive to JB.

Let me turn to governance in particular those practices that relate to your Board and senior management. It has been our objective to construct a board that provides relevant and complimentary experience and skills and an interpersonal dynamic that is both questioning and supportive of management. I firmly believe that your board has not only supported Richard and his team during the rapid growth over the last four years, but is well placed to take the company through this current phase of growth to being a very substantial \$1 billion plus retailer. We have adopted the best practice governance guidelines in all cases except in relation to the formation of a separate nomination committee which due to our size is not practicable.

We are fortunate to have the services of CEO Richard Uechtritz and executive director Terry Smart. Not only has their contribution to the success of the company to date been invaluable, they have built a senior management team that is the envy of the industry. It is our philosophy to recognize and reward strong performance with both short term and long term incentives. Some years ago we established an employee share option plan which now has 25 participants. In addition, in excess 130 employees participated in the IPO last October and Richard and Terry are both significant shareholders in their own right, providing a strong alignment of interest between shareholders and management.

In July of this year the company granted 1.6 million options pursuant to the terms of the plan. 519,751 of these options were issued to Richard Uechtritz and 343,035 to Terry Smart. The options vest over four years and are subject to a cumulative 10% earnings per share growth performance hurdle. The granting of options to Richard and Terry must have the approval of members in general meeting in accordance with the ASX Listing Rules. At the time of granting, this requirement was inadvertently overlooked. We have since amended the terms of the options so that they now accord with the listing rules. Accordingly, at the 2005 AGM we will be seeking shareholder approval of the grant of options to Richard and Terry. If shareholders do not approve or ratify the grant under the amended terms they will lapse.

I will now invite CEO Richard Uechtritz to address the meeting.