

Chairman's Address 2006 Annual General Meeting

I am pleased to report that the year ended 30 June 2006 was another record year for the company with the strong performance of existing stores, and the roll out of 18 additional stores. This resulted in

- § an increase in revenue of 36.3% to \$945.8 million
- § an increase in net profit after tax of 32.5% to \$25.8 million
- § an increase in earnings per share of 31.9% to 25.0 cents

Total dividends were increased from 7.2 cents per share to 7.6 cents per share for the year an increase of 5.6%.

Shareholders who invested in the IPO in October, 2003 have achieved an annual compound return of 49.3% compared to 18.8% for the ASX 200 Accumulation Index over the same period.

The company's strategy has been and continues to be very consistent. Every day we look for ways to build upon our competitive advantage of one of the lowest, if not the lowest, operating cost bases in the industry to be able to deliver a broad range of every day low priced products to our customers.

For the year ended 30 June 2006 our operating costs to sales was 17.1% a further improvement from 17.2% the previous year. This is achieved by JB's unique product ranging, mix and branding that drives very high levels of store productivity.

This cost advantage is reinforced by:

- § increasing store sales and the new store roll out that improves our economies of scale in buying (both product and services)
- § an appropriate application of technology and training to constrain our growth in costs at a slower rate than revenue.

One of the key planks of our growth strategy has been geographic expansion and we are pleased to see that the JB Hi-Fi brand and offering continues to travel well outside our roots in Melbourne. We have successfully expanded into Queensland, NSW, South Australia, Western Australia, Northern Territory and Canberra. A number of these locations are outside the major cities drawing from smaller populations, which provides significant encouragement for the potential size of the group. We have also been successful in operating within shopping centres, home maker or big box centres and stand alone destination stores, again something that is unique amongst retailers and one which provides a high degree of flexibility to secure the best possible locations in each area.

Another strength of JB Hi-Fi is our diversified product offering. A large number of product categories are driven by the adoption and increasing penetration of new technology such as plasma and LCD TVs, MP3 players and DVD recorders. The company continues to shift its product mix to be an early leader in new technologies promising high growth and significant volume. In particular, the company has already established itself as a leader in the games market, and is currently increasing its presence in the growing IT/computers market with a major roll-out underway. Categories such as music and movies continue to be a substantial and growing part of the JB business and provide constant foot traffic through the stores. Speakers, hi-fi components and car audio still represent a strong and profitable stream of business.

The company has been able to fund its growth over recent years through the combination of strong levels of cashflow generated from established stores and a prudent level of borrowings. At year end, the company had fixed charges cover of 2.76 times and an interest earned multiple of 6.9. In determining what is an appropriate and prudent level of debt, management and the board consider both operational and financial leverage. Operational leverage is best described as the fixed operating costs that must be met whether the business trades or not. As in any retail business, the largest of these is rent. For the reasons discussed already, JB Hi-Fi enjoys one of the lowest rental burdens of any retailer at 2% of sales. The fixed charges cover ratio captures the company's ability to meet both its rental burden and its financial burden and at 2.76 times, JB is one of the more conservatively geared listed retailers.

Finally, our ability to operate profitably and to expand as quickly and successfully as we have is a testament to our people and the company's continued ability to attract and retain them. Store staff are typically enthusiasts of the product categories they work in, enjoy the interaction with the customer and understand the opportunities that a fast growing and successful company offers. Our support staff are equally dedicated and responsible for our success to date. It is our ability to continue to attract high calibre people and motivate them that will be a key determinant of our growth profile. Fortunately, we are well positioned to maintain our growth for many more years.

In closing, I would like to pay a special thanks to my fellow Directors for their faith in installing me as the Chairman of JB Hi-Fi. In particular it is very appropriate to acknowledge Patrick Elliott who elected to step down as Chairman in March of this year to allow him to concentrate on his new business Next Capital. Patrick has been Chairman since July 2000 and was instrumental in steering the company from its management buyout and then subsequent IPO in October 2003. Patrick's knowledge of and interest in the business is of an immense value to this Board and I am extremely pleased that in stepping down as Chairman he agreed to stay as a Director of the company.

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