

## Chairman's Address

### 2007 Annual General Meeting

I am pleased to report that the year ended 30 June 2007 was another record year for the company with the strong performance of existing stores and the roll out of 13 additional stores. We commenced our expansion in the New Zealand market, with the acquisition of the 11 store chain Hill & Stewart Appliances and the opening of our first JB Hi-Fi store in Queen Street, Auckland.

In 2007 we saw:

- § an increase in revenue of 36% to \$1.3 billion
- § an increase in net profit after tax of 57% to \$40.4 million
- § an increase in earnings per share of 55% to 38.8 cents

Total dividends relating to the 2007 year increased by 45% from 7.6 cents per share to 11.0 cents per share.

Shareholders who invested in the IPO in October, 2003 have achieved an annual compound return of 74.1% compared to 19.4% 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 as one of the lowest, if not the lowest, operating cost bases in the industry so that we are able to deliver a broad range of technology and entertainment products at every day low prices.

For the year ended 30 June 2007 our cost of doing business was 16.0%, a significant improvement from 17.1% the previous year. This was achieved by JB's unique product merchandising, 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 (product, advertising and services)
- § an appropriate application of technology and training to improve labour productivity without impacting customer service levels.

Lower operating costs have enabled the Company to improve profit margins whilst managing in a lower gross margin environment. Lower gross margins continue to results from a shift in product mix to lower margin products as well as strong levels of price competition.

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 all mainland states of Australia and we will open a store in Hobart before Christmas. 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 on reasonable terms 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 soon to be completed. In May this year the company announced its expansion into mobile consumer electronics, partnering with the telecommunications market leader Telstra. Categories such as music and movies may be lower growth but provide constant foot traffic through the stores. Other categories such as speakers, hi-fi components and car audio are in decline but still represent a strong and profitable stream of business.

The success the Company has had at introducing new technologies to the mass market has made us an increasingly important partner to our product suppliers.

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 2.9 times and an interest earned multiple of 8.2. 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 2.9 times, JB is one of the more conservatively geared listed retailers. With an established network of over 100 stores in Australia and New Zealand, the Company has moved from being a net investor of cash to a net generator of cash. This should enable the company to increase its dividend rate and consider other capital initiatives.

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. We are in deed fortunate to have the senior executive team of Richard Uechtritz, Terry Smart, Richard Murray, Scott Browning and Frank Garonzi. This team has been together for most of the last seven years and have proved highly effective. Our ability to continue to attract high calibre people and motivate them 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 acknowledge the contribution of my fellow Directors in particular Mr Jim King who led the Board over the last 18 months. I am pleased to report that your Board and its Committees have reinforced appropriate levels of governance, object debate and counsel for executive management.

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