



ASX ANNOUNCEMENT

Results for Announcement to the Market Preliminary Final Report – Listing Rule 4.3A

David Jones Limited and its controlled entities announce its results for the 52 weeks ended 28 July 2012. Attached are the following documents:

- **Preliminary Final Report (Appendix 4E)**

- **Full Year Consolidated Financial Report 2012**
 - Chairman's and Chief Executive Officer and Managing Director's Report
 - Five Year Financial Statistics
 - Directors' Report (including Remuneration Report)
 - Consolidated Financial Statements for the 52 weeks ended 28 July 2012
 - Directors' Declaration
 - Independent Auditor's Report

FOR FURTHER INFORMATION CONTACT:

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**DAVID
JONES**

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APPENDIX 4E PRELIMINARY FINAL REPORT

DAVID JONES LIMITED

ABN 75 000 074 573	Current Reporting Period:	52 Weeks ended 28 July 2012
	Previous Corresponding Period:	52 Weeks ended 30 July 2011

Results For Announcement to the Market

				A\$ 000
Revenues from ordinary activities	Down	4.8%	to	1,867,817
Profit from ordinary activities after tax attributable to members	Down	39.9%	to	101,103

Dividends – Ordinary Shares	Amount per security	Franked amount per security
2012 Final dividend declared (payable 5 November 2012)	7¢	7¢
2012 Interim dividend (paid 7 May 2012)	10.5¢	10.5¢
Previous corresponding period		
2011 Interim dividend (paid 9 May 2011)	13¢	13¢
2011 Final dividend (paid 7 November 2011)	15¢	15¢

Record date for determining entitlements to the final dividend

9 October 2012

David Jones Limited operates a Dividend Reinvestment Plan (DRP) through which shareholders can reinvest dividends paid on ordinary shares in David Jones Limited. The last date of receipt of an election notice for participation in the DRP is 9 October 2012. Shares allocated under the DRP will be allocated at the weighted average market price for David Jones shares sold on ASX during the period of 10 trading days commencing on the second day after the record date. Shares issued to participating shareholders under the DRP will rank equally with existing fully paid ordinary shares.

The remainder of the information requiring disclosure to comply with listing rule 4.3A is contained in the attached ASX and Media Release and the audited 28 July 2012 Annual Consolidated Financial Report.

Net Tangible Asset Backing	Current Period	Previous Corresponding Period
Net tangible asset backing per ordinary security	\$1.29	\$1.36

Annual General Meeting

The Annual General Meeting will be held at “On Seven at David Jones”, Level 7, 86 – 108 Castlereagh Street Sydney NSW 2000 at 10.00 a.m. on Friday, 23 November 2012. The Annual Report will be available in October 2012.

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR'S REPORT

Dear Shareholders,

On behalf of the Board and management of David Jones Limited, we present our Company's Annual Report for the financial year ended 28 July 2012. We would like to take this opportunity to thank you, our shareholders, for your support throughout the year.

The past year has been a difficult environment for retailers. Consumer sentiment remains depressed despite interest rate cuts by The Reserve Bank of Australia. The continued financial uncertainty in Europe and the US and volatility in global equity markets have contributed to a general feeling of uncertainty. In addition, the strong Australian dollar has contributed to price deflation and encouraged spending offshore. These macro economic conditions have inevitably impacted our Company's financial performance.

OVERVIEW

On 21 March 2012 our Company unveiled its Future Strategic Direction Plan, which set out the Company's strategy to deal with structural changes in the retail sector and the challenging macro economic conditions. In addition the Plan set out the Company's "blueprint" for future growth and focused on the Company's transformation, growing our store network and strengthening our core business.

Implementation of our Future Strategic Direction Plan has required significant investment in 2H12, which will continue into FY2013. The implementation process will take time, however, we are pleased to report that good progress has been made to date.

FUTURE STRATEGIC DIRECTION PLAN

1. TRANSFORMATION

Omni Channel Retailing

It is our intention to be a major player in Omni Channel Retailing (OCR) in the future and to provide our customers with the best shopping experience and range of products regardless of which channel they choose to shop from, be it online, in-store, mobile application, social commerce site or a combination of these.

Since 21 March 2012 the Company has worked diligently to implement the foundation of its OCR business. During this period the focus has been on building the necessary scalable physical infrastructure, implementing the required integrated systems, realigning our processes and investing in our people.

To support the Company's vision of becoming a true omni channel retailer, investment and resources have been allocated during the year to build the required physical infrastructure. The Company's warehouse at Silverwater (NSW) has been significantly expanded and upgraded to be the Company's national fulfilment centre capable of supporting the turnover equivalent of a large suburban store. Co-located within the fulfilment centre is a new purpose built production house containing studios, post production and copywriting facilities. In addition, a new customer contact centre has been established to handle customer enquiries.

A new scalable IT platform consisting of a new content management system, a new order management system and a new warehouse management system has been implemented. This platform has been fully integrated into the David Jones proprietary systems giving the business one view of all products, pricing, promotions and inventory across all channels.

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR'S REPORT

The Company is on track to launch its new online shopping site by the end of October 2012. The new site will offer a significant increase from the 9,000 Stock-Keeping Units (SKUs) on offer under the previous legacy IT system. The number of SKUs on offer is planned to be 90,000 by Christmas 2012.

During August the first stages of the Company's new content strategy were implemented with the launch of the new David Jones integrated blog called "Black & White". A new blogging team has been established consisting of editors from Vogue, GQ and Inside Out magazines. The Company has continued its move towards integrated marketing across all channels with a focus on digital marketing including investment in digital display advertising, Search Engine Optimisation, the use of QR codes in press and catalogues and the launch of our presence on Pinterest and Instagram.

The next components of the OCR roll-out will occur throughout FY2013 and will include the launch of the Company's new mobile store and the first App designed specifically for iPads, which will be a content rich publication with the ability to purchase online. The Company will also introduce new functionality to its online site including a store booking tool to be used across all channels and all devices. Click & Collect, incremental delivery options, social commerce and the option to purchase online from our gift registry will also be rolled out during this period.

The establishment of the foundation of our OCR business and the launch of our new web store are important milestones in our transformation into a world class omni channel retailer. We will continue to invest in our OCR channels to deliver further enhancements.

Cost Price Harmonisation

In a world where customers have increased price transparency through technology it is important that we ensure our pricing is comparable to global prices. The Company is making good progress working with suppliers to achieve global cost price harmonisation and has had success in delivering retail price reductions over the past six months across hundreds of SKUs in categories such as Fashion, Beauty, Accessories, Shoes, Homewares and Electronics. Whilst the cost price harmonisation process is complex and will take time, the Company is focussed on maintaining its gross profit margin percentage.

Whilst these price reductions are pleasing, they do raise the issue of deflationary pressure on our business. Some of this deflationary pressure has been offset by volume increases. We are undertaking a review of all categories with a view to maximising the space allocated to high margin products.

Customer Service & Engagement

As various channels of retailing emerge and gain popularity, retailers are increasingly competing internationally and customers' expectations are increasing. As a result the Company is investing significantly in customer service and engagement. Initiatives implemented include:

- Increased floor staff hours relative to sales;
- Introduction of 100 new floor staff supervisor roles;
- Introduction of 200 new "Style Advisor" and "Sales Specialist" roles;
- Continued investment in frontline sales training, improved performance reporting to sales staff and increased reward incentives for frontline staff.

In addition, 45 new in-store events and promotions have been introduced to date. These include Miranda Kerr in-store appearance, Napoleon Perdis in-store appearance, Trunk Shows, Ginger & Smart Fashion Show, Harpers Bazaar Bridal event, Nicole Ritchie in-store appearance, Bobbi Brown Master Class and Cheese & Wine matching classes.

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR'S REPORT

Investment in Technology

In addition to the investment in technology relating specifically to the Company's OCR launch, the Company has commenced the pilot of its new Point of Sale (POS) system. The new POS system will improve our customers' service experience and significantly reduce transaction times. Importantly our new POS system has multi-functionality and will play a pivotal role in our Company's OCR Strategy. The Company has also appointed a preferred provider for its new Workforce Management System and is undertaking a tender for a new Traffic Analytics System.

Building Management Skills

As our business changes we are focussed on ensuring the management team has the right skill base and experience to implement the Future Strategic Direction Plan. A Support Centre (Head Office) Restructure took place in May 2012 pursuant to which a number of key external appointments were made including Donna Player as the Group Executive of Merchandise and Brad Soller as the new Chief Financial Officer.

2. GROWING THE STORE NETWORK

New Full Line Department Stores

We expect our store network to continue to be core to our business and, as a result, we are focussed on ensuring we have a presence in areas where for historical reasons we have not been represented. The Company has signed Agreements to Lease six new stores. The first of these new stores to open will be Highpoint (Vic), which is on track to open in the first quarter of calendar 2013. The Indooroopilly (Qld) store will follow and is scheduled to open in the first quarter of calendar 2014.

Village Format Stores

As part of the Future Strategic Direction Plan David Jones noted its intention to open several village format stores. These stores will be approximately 7,000 square metres in size with a focus on Fashion and Beauty and will be located in areas with appropriate demographics which do not have a major shopping centre. This concept is based on the success of the Company's Claremont Quarter (WA) store.

In August 2012 the Company announced it will open a new village format store in Malvern (Vic). In addition, the Toowong Village (Qld) store refurbishment is in line with the Company's village format concept. The village format stores will leverage the Company's existing merchandising, operating and service capabilities as well as the David Jones brand.

3. STRENGTHENING THE CORE BUSINESS

Best National & International Brands

The Company will continue to invest in and add to its brand portfolio to ensure that its brand offering remains fresh, exciting and new and reflects what customers want. In August 2012 the Company announced the introduction of 85 new brands into its business taking the total new brands launched over the past 20 months to more than 220. New brands include Valentino, James Perse, Gary Bigeni, We are Handsome, Vivienne Westwood, Paul & Joe Sister and Nicholas Kirkwood.

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR'S REPORT

Cost of Doing Business (CODB) Reductions

The Company's Future Strategic Direction Plan identified a number of CODB reductions which will go some way to offset the expected increases in labour, occupancy, utilities and financing costs, without impacting service levels. During the year a number of CODB initiatives have been implemented that include eliminating administrative tasks through the consolidation of stocktaking activities and the introduction of product scanners within the Company's gift registry business. In addition, CODB reductions have been delivered as a result of the May 2012 Support Centre restructure and energy efficiencies which have reduced usage by 6% over the past 12 months.

Gross Profit (GP) Margin Improvements

At the time of announcement of the Future Strategic Direction Plan the Company acknowledged that GP Margins would be adversely impacted in FY2012 by the need to clear excess Inventory. To counteract this, the Company identified initiatives designed to restore GP Margins to a sustainable target range over time.

These initiatives include the renegotiation of vendor trading terms earlier in the year and a review of the Company's category mix, with a view to increasing the selling space allocated to high margin categories.

In addition, the Company reduced both the duration of its Half Year Clearance event in June by two weeks and the number of tactical discounting events in its promotional calendar.

Refurbishments

The Future Strategic Direction Plan listed five high value refurbishments to be undertaken over the next few years aimed at enhancing the customer shopping experience. Of these the Toowong Village (Qld) store refurbishment is due for completion in late September 2012 and the Elizabeth Street and Market Street (NSW) refurbishments are on track for completion in time for Christmas 2012.

The recently refurbished Warringah Mall (NSW), Chadstone (Vic) and Marion (SA) stores are all trading well.

Our ongoing refurbishment program ensures that our stores continue to provide the ambience and shopping experience our customers expect.

Financial Services

In 2H12 the Company invested \$1.8 million in its Financial Services business to increase spend, balances and the number of cards on issue. This money was invested in a number of growth initiatives including:

- Launch of the new David Jones Platinum American Express card;
- Launch of Qantas Frequent Flyer points as a reward option under the David Jones Platinum and existing David Jones American Express cards;
- Introduction of 21 new cardholder events;
- Renewed promotion of the David Jones Store Card and reintroduction of applications at registers in-store.

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR'S REPORT

PROPERTY PORTFOLIO

David Jones owns four premium retail properties located in the heart of the Sydney and Melbourne CBD retailing precincts. These are:

- Elizabeth Street, Sydney
- Market Street, Sydney
- 310 Bourke Street, Melbourne
- 299 Bourke Street, Melbourne.

These four properties are unique and highly desirable sites in central locations with high foot traffic. They offer over 85,000 square metres of retail floor space and have a book value of \$460 million. The Company has commenced a review to investigate opportunities to unlock and enhance the value of its property portfolio for the benefit of shareholders.

Independent property consultant Cushman & Wakefield has undertaken a consultancy assignment to provide David Jones with an indication of the potential sale price of these assets assuming a lease to David Jones, or equivalent tenant, on the basis of their existing use (i.e. excluding development upside). They concluded that based on an assumed rental of \$39 million p.a. for all four buildings the potential worth of these assets is \$612 million.

The Company's initial review indicates potential value upside from the development of these sites. Detailed analysis on the development opportunities of each site, including planning limitations, design, structural works and the short term impact on trading is being undertaken by the Company with a view to updating the market in six months time.

FY2012 FINANCIAL REVIEW

The Company's Profit after Tax of \$101.1 million represents a decline of 39.9% on the prior year and is in line with the guidance provided to the market in March 2012.

Sales Revenue for the year was \$1,867.8 million, down 4.8% on FY2011 reflecting the challenging trading environment during the year. There was however an improvement in the quarterly sales tracking throughout the year.

Gross Profit percentage for FY2012 was down 160 bp to 37.5% (FY2011: 39.1%). This is the result of discounting in a competitive environment and the impact of dealing with the excess Inventory on hand at the commencement of FY2012.

The Cost of Doing Business (CODB) percentage for FY2012 was 31.8% (FY2011: 29.0%). This reflects investment in the Company's Future Strategic Direction Plan, increased labour, utilities, property and financing costs and lower sales volumes.

The Company's Financial Services business reported growth of 3.6% in EBIT to \$49.4 million in FY2012 (FY2011: \$47.7 million). This is lower than the 7.5% EBIT growth achieved in prior years and reflects the Company's decision to invest in 2H12 in growing customer spend and balances.

Earnings before Interest and Tax (EBIT) in FY2012 was \$154.3 million (FY2011: \$246.5 million). The lower EBIT reflects the decline in sales, lower margins and increased costs.

The Company's year end Inventory position is 3.4% lower than FY2011. Management has addressed the excess Inventory it faced at the start of FY2012 and Aged Inventory was considerably lower than 5% at the year end. The Company was well positioned at year end with new Inventory for the start of the Spring/Summer season.

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR'S REPORT

The Company's Operating Cash Flow increased 7.8% to \$196.7 million (FY2011: \$182.4 million). The Company continued to invest with capital expenditure of \$81.4 million (FY2011: \$81.5 million) and returned \$110.6 million to shareholders via fully franked dividend payments.

Net debt as at 28 July 2012 was \$115.5 million (FY2011: \$120.2 million). The Company's gearing ratio (net debt to net debt plus equity) was 13.0% (FY2011: 13.3%).

As shareholders will be aware, in June and July, the Company issued a number of announcements relating to the proposed offer by EB Private Equity, which was subsequently withdrawn. The proposed offer and the Company's disclosure were reviewed by the Australian Securities and Investment Commission (ASIC). ASIC has advised the Company it has concluded its investigation at this stage and it is not proposing to take further action in relation to the Company.

DIVIDENDS

The Board has declared a fully franked final dividend of 7.0 cents per share (cps).

The total dividend per ordinary share for FY2012 is 17.5 cps (fully franked). This represents a payout ratio of 91% and is consistent with the Board's undertaking to payout not less than 85% of Profit after Tax.

SUPPLIER PARTNERS

Our suppliers are an integral part of our "Home of Brands" strategy, which differentiates David Jones from its competitors. We are committed to nurturing and strengthening our relationship with each of our suppliers.

We acknowledge and appreciate those suppliers that have listened to our Australian customers and have harmonised their prices.

CUSTOMERS

We also thank all of David Jones' customers for their patronage and support throughout the year. We are proud of our service heritage and are committed to deliver customer service excellence.

We have increased our focus and investment in service and have reset our benchmarks on international standards.

EMPLOYEES

Last but not least we would like to take this opportunity to express thanks to our employees for their commitment and efforts throughout a challenging year for our business. Our people are the "face" of David Jones and we appreciate their importance of delivering on our Company Vision.

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR'S REPORT

CONCLUSION

As foreshadowed in March 2012 our FY2012 PAT was impacted by the investment we made in 2H12 in implementing our Future Strategic Direction Plan as well as by challenging retail conditions.

We are pleased to report that we have made good progress in implementing our Future Strategic Direction Plan.

Despite the immediate trading challenges we are facing, we are excited about David Jones' future. Our Company is transforming into a world class omni channel retailer with many attractive opportunities.

We have a good business model, a strong balance sheet, low debt and solid cash flows. We own our flagship Sydney and Melbourne CBD store properties as well as our store card and credit card business. We have a well positioned store portfolio of 36 stores in metropolitan locations with attractive demographics. In addition we have a distinctive positioning in the Australian market with a strong service ethic and a loyal customer base.

These strengths together with the initiatives in our Future Strategic Direction Plan position us well to address the challenges the Australian discretionary retail sector faces and to leverage the opportunities for future growth.

Our vision is that David Jones will bring the best branded department store shopping experience to everyone we serve, anywhere, anytime, every time.

We are genuinely excited about the opportunities that lie ahead over the next few years and look forward to reporting back to you in 12 months.



Robert Savage
Chairman



Paul Zahra
Chief Executive Officer
& Managing Director

FIVE YEAR FINANCIAL STATISTICS

	2012	2011	2010 ¹	2009 ²	2008 ³
SALES AND PROFIT					
Sales	1,867,817	1,961,744	2,053,087	1,985,490	2,097,999
Gross Profit	699,830	767,269	815,729	786,146	829,772
Gross Profit (% of sales)	37.5%	39.1%	39.7%	39.6%	39.5%
Retail Contribution EBIT	104,995	198,762	204,798	184,377	174,560
Financial Services EBIT	49,418	47,707	44,379	41,274	38,385
TOTAL EBIT	154,413	246,469	249,177	225,651	212,945
PROFIT AFTER TAX	101,103	168,139	170,766	156,522	137,056
BALANCE SHEET					
Inventory	279,099	288,850	282,346	244,843	257,288
Other current assets	44,150	38,251	45,738	45,503	486,384
Property, plant & equipment	817,432	798,416	761,565	724,080	670,687
Other non-current assets	100,216	89,033	105,272	110,248	112,743
Total Assets	1,240,897	1,214,550	1,194,921	1,124,674	1,527,102
Payables	264,595	216,429	244,529	244,102	274,608
Provisions	32,138	32,910	47,420	58,905	61,635
Interest-bearing liabilities	136,006	131,943	103,945	101,870	512,360
Other liabilities	32,454	47,788	54,789	34,955	61,252
Total Liabilities	465,193	429,070	450,683	439,832	909,855
NET ASSETS	775,704	785,480	744,238	684,842	617,247
RATIOS					
EBIT to Sales (%)	8.3%	12.6%	12.1%	11.4%	10.2%
Basic earnings per share (cents)	19.4	33.6	34.0	31.5	28.4
Dividends per share (cents)	17.5	28.0	30.0	28.0	27.0
Net Debt: (Net Debt + Equity)	13.0%	13.3%	10.4%	11.4%	15.3%
Return on shareholder equity (%)	13.0%	21.4%	22.9%	22.9%	22.2%
Number of shares on issue (Consolidated Entity)	525,850	512,273	504,615	498,357	483,453

¹ FY2010 was a 53 week period

² Restated in respect of amendment to AASB 138

³ Adjusted for the removal of the one-off impacts of the profit from the sale of the Bourke Street Home Store in FY2008, the full details of which are disclosed in the Company's Annual Report for that year

DIRECTORS' REPORT

The Directors of David Jones Limited (the 'Company') present their Report together with the Consolidated Financial Statements of the Company and its controlled entities (the 'Consolidated Entity') for the 52 weeks ended 28 July 2012.

INFORMATION ON DIRECTORS

The Directors of the Company in office at any time during, or since the end of, the financial year are as follows:



ROBERT SAVAGE AM

Resident of Sydney

Term of office Non-executive Director since 25 October 1999 and appointed Chairman on 17 July 2003

Independent Yes

External Directorships Mr Savage previously held the offices of Chairman and Director of Perpetual Limited (until 26 October 2010) and Director of Fairfax Media Limited (until 30 June 2012).

Skills, experience and expertise Mr Savage has been a Non-Executive Director for 13 years across a wide range of industries and has also held roles on audit and remuneration committees. Prior to his appointment at David Jones, Mr Savage gained extensive business experience during a 35 year career with IBM in marketing, finance, software development and management roles. During this period, he worked in Australia, Asia and the United States of America. The roles he held at IBM included the following: Managing Director and Chairman of IBM Australia; General Manager - Government (Asia Pacific and South Asia); and Chairman and Chief Executive Officer of IBM Hong Kong, China and Taiwan

Board committee membership Member of the Remuneration and Nominations Committee and Member of the Property Committee until 1 September 2012.



PETER MASON AM

B.Com (Hons), MBA, Honorary Doctorate of Business (UNSW)

Resident of Sydney

Term of office Non-executive Director since 28 November 2007 and appointed Deputy Chairman on 5 May 2012

Independent Yes

External Directorships Chairman, AMP Limited; Director, Singapore Telecommunications Limited; Senior Advisor to UBS Investment Bank; Chairman, UBS Australia Foundation Pty Ltd; Director, University of New South Wales Foundation; Director, (Headspace) National Youth Mental Health Foundation Ltd; Director, Taylors Wines Pty Ltd; Chairman, Centre for International Finance and Regulation and Trustee of the Sydney Opera House Trust.

Skills, experience and expertise Mr Mason has extensive experience as a director and chief executive officer in financial services in Australia and the United Kingdom, primarily in investment banking. Mr Mason has been a Director and Chairman of a number of public companies and educational and charitable organisations.

Board Committee Membership Member of the Audit Committee until 5 June 2012 and Chairman of the Remuneration and Nominations Committee from 26 April 2012.



PAUL ZAHRA

Resident of Sydney

Term of office Chief Executive Officer and Managing Director since 18 June 2010

Independent No

External Directorships None

Skills, experience and expertise Mr Zahra has more than 30 years experience in the Australian retail industry. He has held senior management roles across the retail sector in the areas of buying, stores, visual merchandising, supply chain, store refurbishments, customer service and operations. Mr Zahra joined David Jones Limited in 1998 as General Manager of Merchandise Services. He has spent more than 10 years in strategic roles within other major Australian retailers, including setting up the Officeworks Superstores business and holding management roles at Target Australia.

Board committee membership Executive Directors are not members of Board Committees but attend Committee meetings as required.

DIRECTORS' REPORT



STEPHEN GODDARD
BSc (Hons) MSc

Resident of Sydney

Term of office Finance Director from 3 February 2003 to 1 April 2012 and Executive Director from 2 April 2012 to present

Independent No

External Directorships None

Skills, experience and expertise Mr Goddard has 28 years experience in the Australian retail sector across a broad range of areas including finance, strategic planning, merchandise, stores, logistics, supply chain and property. The vast majority of this time has been in senior management and strategic roles in major Australian department stores including 15 years at David Jones Limited and 13 years at Coles Myer Limited, which included his appointment as founding Managing Director of Officeworks in 1993. Mr Goddard brings to the Board extensive and broad ranging retail experience. Mr Goddard was appointed to David Jones as Operations Director in 1997, Chief Financial Officer in July 2001 and Finance Director in February 2003.

Board committee membership Executive Directors are not members of Board Committees but attend Committee meetings as required.



JOHN HARVEY
LLB B.JURIS GRAD.
DIP ACC., FCA

Resident of Melbourne

Term of office Non-executive Director since 8 October 2001

Independent Yes

External Directorships Director, Australian Infrastructure Fund Ltd; Director, Australian Pacific Airports Corporation Ltd; Chairman and Director, Fed Square Pty Ltd (until June 2012); Chairman and Director, APN Funds Management Ltd (until May 2012); Chairman and Director, Templeton Global Growth Fund (until May 2012); Director, APN Property Group Ltd (until November 2009).

Skills, experience and expertise Mr Harvey has had a 26 year professional career with PricewaterhouseCoopers, which included a tenure as Chief Executive Officer in Australia and membership of the global board of PricewaterhouseCoopers. During this time, he provided professional advisory and audit services to many multinational and Australian companies, including retailers. His qualifications and experience provide the financial expertise necessary to chair the Audit Committee.

Board committee membership Chairman of Audit Committee.



PHILIPPA STONE
BA LLB (Hons)

Resident of Sydney

Term of office Non-executive Director since 9 March 2010

Independent Yes

External Directorships None

Skills, experience and expertise Ms Stone has had extensive business and legal experience, and is a corporate and commercial partner of a major law firm, Freehills. She specialises in corporate governance, general corporate advice, equity capital markets and mergers and acquisitions. Ms Stone is recognised as a leading practitioner in her field of expertise not only by her peers but also the wider legal industry. She brings to the Board of David Jones Limited extensive experience in business and legal matters. She is a member of the Australian Securities Exchange's Listing Appeals Tribunal and the Law Council of Australia's Corporations Committee.

Board Committee membership Member of Audit Committee and Member of the Property Committee until 1 September 2012.



STEVEN VAMOS
BEng Civil (Hons)

Resident of Sydney

Term of office Non-executive Director since 5 June 2012

Independent Yes

External Directorships Director, Telstra Corporation Limited; Director, Medibank Private Limited; Director, The Society for Knowledge Economics

Skills, experience and expertise Mr Vamos has over 30 years experience in the information technology, internet media and online advertising industry. He led Microsoft Australia and New Zealand from 2003 to 2007 before moving to the United States of America to lead the company's international online media business. Previously he was Chief Executive Officer of ninemsn and Vice President for Apple Computer Australia and Asia Pacific in the 1990's. He also held professional and executive roles at IBM Australia for 14 years. He is the founding President of the Society for Knowledge Economics, a not-for-profit think tank that encourages new and better practices in organisational leadership and management.

Board Committee membership Member of Audit Committee and Remuneration and Nominations Committee.

The above Directors, with the exception of Steven Vamos who was appointed on 5 June 2012, were in office for the entire financial year and up to the date of this Report.

DIRECTORS' REPORT

The following Directors who were in office at the commencement of the financial year, resigned during the financial year:

Reginald Clairs AO Independent Non-Executive Director (resigned 29 February 2012)

John Coates AC Deputy Chairman and Independent Non-Executive Director (resigned 3 May 2012)

Katie Lahey Independent Non-Executive Director (resigned 25 June 2012)

COMPANY SECRETARY

The Company Secretary is Susan Leppinus (B.Ec, LLB, GDip AppFin). Susan Leppinus was appointed to the position of Company Secretary and General Counsel on 10 July 2012, following the resignation of Caroline Waldron on 9 July 2012. She has more than 18 years experience in the legal profession, including 8 years experience as Company Secretary and General Counsel for an ASX200 company.

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the financial year consisted of department store (including internet) retailing, and financial services through an alliance with American Express.

There were no significant changes in the nature of the activities of the Consolidated Entity during the financial year.

DIVIDENDS

Dividends paid or declared by the Company to ordinary shareholders since the end of the previous financial year were as follows:

	CENTS PER SHARE	TOTAL PAID / PAYABLE \$000	DATE PAID / PAYABLE
Dividends paid during the year			
2011 Final dividend	15.0	78,113	7 November 2011
2012 Interim dividend	10.5	55,119	7 May 2012
Dividends declared after the year end			
2012 Final dividend	7.0	37,006	5 November 2012

All dividends paid were fully franked at the tax rate of 30%.

DIRECTORS' REPORT

REVIEW OF OPERATIONS

A five year profile of the Consolidated Entity is set out in the Five Year Financial Statistics. The full financial position of the Consolidated Entity is shown in the Financial Statements and accompanying notes.

FY2012 was challenging for the retail sector and the Consolidated Entity was impacted by macro economic factors and depressed consumer sentiment.

The Consolidated Profit after Tax (PAT) of \$101.1 million represents a decline of 39.9% on the prior year, which was in line with the guidance provided to the Australian Securities Exchange on 21 March 2012 as part of the Consolidated Entity's Future Strategic Direction announcement.

Total Sales for the 52 weeks ended 28 July 2012 were down 4.8% on the prior year. There was however an improving trend during the year with the decline in Total Sales reducing from 11.2% in 1Q12 to 3.1% in 2Q12, to 2.9% in 3Q12 and 1.3% in 4Q12.

Gross Profit percentage for FY2012 of 37.5% was down 160 basis points (bps) on FY2011. The decline was primarily due to action taken to clear excess inventory on hand at the start of the financial year. The Consolidated Entity has now cleared its excess inventory, and aged inventory is below its benchmark of 5% of total inventory. It is well positioned for the start of FY2013.

The total Cost of Doing Business (CODB) percentage for FY2012 was 31.8%, an increase of 280 bps on the FY2011 CODB percentage of 29.0%. The higher CODB rate reflects investment made by the Consolidated Entity to deliver initiatives outlined in its Future Strategic Direction announced in March 2012 and lower sales volumes.

The Consolidated Entity's Financial Services segment reported growth in Earnings Before Interest and Tax (EBIT) of 3.6% to \$49.4m from \$47.7m in FY2011. This is lower than the 7.5% p.a. growth in prior years as the Consolidated Entity invested to grow this business.

As a result of the above movements the Consolidated Entity's Total PAT to Sales Ratio for FY2012 declined to 5.4% from 8.6% in FY2011.

The Consolidated Entity continued to deliver strong Cash Flows with positive free cash flows of \$4.7 million after Capital Expenditure payments of \$81.4 million and dividend payments of \$110.6 million.

Capital Expenditure (Capex) in FY2012 of \$81.4 million reflects the Consolidated Entity's investment in its Chadstone (Vic), Warringah Mall (NSW), Marion (SA) and Toowong Village (Qld) store refurbishments as well as its investment in Omni Channel Retailing and a new Point of Sale system.

Net Debt remains relatively low at \$115.5 million. The Consolidated Entity's gearing (Net Debt: Net Debt + Equity) was 13.0% as at 28 July 2012.

The Board declared a final fully franked dividend of 7.0 cents per share, which, together with the fully franked dividend of 10.5 cents per share declared in the first half of FY2012, results in a total dividend declared for the year of 17.5 cps. This represents a payout ratio of 91%.

A detailed review of the Consolidated Entity's operations and the results of those operations are set out in the Chairman's and Chief Executive Officer and Managing Director's Report.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Comments on likely developments and expected results of the Consolidated Entity's operations are included in the Chairman's and Chief Executive Officer and Managing Director's Report. In the opinion of the Directors, disclosure of any further information would be likely to result in unreasonable prejudice to the Consolidated Entity.

BUSINESS STRATEGIES AND PROSPECTS

The Consolidated Entity is influenced by a variety of general economic and business conditions, including levels of consumer spending, inflation, interest and exchange rates, and government fiscal, monetary and regulatory policies. An increase in interest rates or a decrease in consumer and business demand may have an adverse impact on the Consolidated Entity's business or financial condition.

The Consolidated Entity has a distinctive positioning in the Australian market, with a loyal customer base, a strong service ethic, a profitable and well positioned store portfolio, the best national and international brands, and an experienced management team. It also has direct ownership of its flagship Sydney and Melbourne CBD stores, a strong balance sheet, robust cash flows and a high dividend payout ratio.

Despite its strengths, the Consolidated Entity faces challenges, including:

- structural changes as a result of the internet becoming a global gateway and changing the retailing landscape. Online retailing has also resulted in greater transparency of global price variations;
- macro-economic factors due to depressed retail sales and increasing cost pressures in key cost lines such as rent, labour, utilities and financing; and
- challenging Australian consumer credit markets given the weak discretionary retail spending, to which the Consolidated Entity's card portfolio is exposed.

The Consolidated Entity is addressing these challenges to grow via a strategy which builds upon its existing strengths, leverages opportunities for growth and addresses challenges facing the business. The key components of this strategy are further outlined in the Chairman's and Chief Executive Officer and Managing Director's Report.

A key part of the Consolidated Entity's Future Strategic Direction Plan is its transformation into an Omni Channel Retailer. This will enable customers to choose their own method of retail engagement and will allow them to enjoy a similar experience across all sales channels.

Throughout the year there was investment in technology and people to ensure that the necessary expertise and capability required were prevalent in the business. Additional investment has also been made in stores with a new Point of Sale system.

DIRECTORS' REPORT

Numerous initiatives have also been put into place which focus on customer service and the in-store shopping experience.

The Consolidated Entity continues to focus on updating the brand portfolio and introduced 220 new national and international brands over the past 2 years.

An important development within the Consolidated Entity's financial services business is the new relationship with Qantas Airways Limited to introduce Qantas Frequent Flyer points as a reward option for its David Jones American Express Cards and Storecard program. The new Qantas Frequent Flyer reward option for the David Jones American Express Cards Program was launched on 31 August 2012.

Despite the challenging retail environment the Consolidated Entity is excited about the future and its transition into a world class Omni Channel Retailer.

Further commentary on the Consolidated Entity's business strategies and its prospects for the future are included in the Chairman's and Chief Executive Officer and Managing Director's Report. In the opinion of the Directors, disclosure of any further information would be likely to result in unreasonable prejudice to the Consolidated Entity.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, other than as referred to in this Directors' Report, there were no significant changes in the state of affairs of the Consolidated Entity during the 52 week period ended 28 July 2012.

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each Director during the 52 weeks ended 28 July 2012 is set out below:

DIRECTOR	DIRECTORS' MEETINGS		COMMITTEE MEETINGS					
	Held ¹	Attended	AUDIT COMMITTEE MEETINGS		REMUNERATION AND NOMINATIONS COMMITTEE MEETINGS		PROPERTY COMMITTEE MEETINGS ⁴	
			Held ¹	Attended	Held ¹	Attended	Held ¹	Attended
Robert Savage AM	8	8	4	4 ²	3	2 ³	3	2 ³
Peter Mason AM	8	8	3	3	2	2	-	-
Paul Zahra ⁵	8	8	-	-	-	-	-	-
John Harvey	8	7 ³	4	4	-	-	-	-
Philippa Stone	8	8	4	4	-	-	3	3
Steven Vamos	2	2	1	1	-	-	-	-
John Coates AC	6	6	3	2 ³	-	-	3	3
Stephen Goddard ⁵	8	8	-	-	-	-	-	-
Reginald Clairs AO	4	4	2	2 ²	2	2	-	-
Katie Lahey	7	7	4	1 ²	3	3	-	-

¹ Number of meetings reflects total meetings held during the time the Director held office or was a member of a committee during the year

² Attended on an ex-officio basis

³ Absent from meeting due to illness or approved leave

⁴ The Board determined that the Property Committee will no longer continue with effect from 1 September 2012. Property matters for consideration and approval will be dealt with by the Board or a sub-committee as and when required.

⁵ Executive Directors are not members of Board Committees but attended Committee meetings as required.

DIRECTORS' REPORT

DIRECTORS' INTERESTS

The relevant interest of each Director in the Company, as notified by the Directors to the ASX in accordance with section 205G(l) of the *Corporations Act 2001* (Cth), at the date of this Report is as follows:

DIRECTOR	ORDINARY SHARES IN THE COMPANY	LTI PLAN RIGHTS ^{1,2}
Robert Savage AM	145,799	—
Peter Mason AM	132,929	—
Paul Zahra	863,926	862,500
John Harvey	48,502	—
Philippa Stone	29,754	—
Steven Vamos	—	—
Stephen Goddard	2,235,782	250,000

¹ Not applicable to Non-Executive Directors

² In accordance with the FY2009–FY2012 Executive Retention Plan rules, the number of ordinary shares which may be issued is dependent on Company performance and can range from zero up to 100% of the rights allocated. 410,750 rights for Paul Zahra and 76,250 rights for Stephen Goddard are expected to convert to fully paid ordinary shares on 19 September 2012.

SHARES ISSUED DURING OR SINCE THE END OF THE YEAR AS A RESULT OF THE EXERCISE OF RIGHTS

During the 52 weeks ended 28 July 2012, 6,324,027 rights under the LTI Plan converted to 5,672,957 fully paid ordinary shares in the capital of the Company. No money was received by the Company on the conversion of these rights to ordinary shares. Shares carry the same rights and entitlements as other fully paid ordinary shares from the date of allocation.

The Company has on issue rights of 5,624,000, including the rights to Paul Zahra and Stephen Goddard referred to above, under the FY2009–FY2012 Executive Retention Plan. Of these rights, it is expected that 1,526,680 will convert to fully paid ordinary shares in the capital of the Company on 19 September 2012. The Company will not receive any monetary consideration on the vesting of these rights. The Company did not issue any new rights under the FY2009–FY2012 Executive Retention Plan or any other LTI Plan in FY2012.

EVENTS SUBSEQUENT TO REPORTING DATE

Dividends

On 19 September 2012, the Directors declared a final dividend of 7.0 cents per ordinary share, fully franked at the tax rate of 30%. The final dividend is payable on 5 November 2012.

REMUNERATION REPORT

The Remuneration Report forms part of the Directors' Report and has been audited as required by section 308(3C) of the *Corporations Act*.

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS

Indemnification of Directors

The Company has indemnified each Director referred to in this Report, the Company Secretary and previous Directors and Secretaries (Officers) against all liabilities or loss (other than to the Company or a related body corporate) that may arise from their position as Officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith or where indemnification is otherwise not permitted under the *Corporations Act*. The indemnity stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses, and covers a period of seven years after ceasing to be an Officer of the Company. The indemnity is contained in a Deed of Access, Insurance and Indemnity, which also gives each Officer access to the Company's books and records.

The Company has also indemnified the current and previous Directors of its controlled entities and certain members of the Company's senior management for all liabilities or loss (other than to the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith or where indemnification is otherwise not permitted under the *Corporations Act*.

Indemnification of Auditor

As part of the Company's terms of engagement with Ernst & Young, the Company has agreed to indemnify Ernst & Young against certain liabilities to third parties arising from their engagement as auditor. The indemnity does not extend to any liability resulting from a negligent, wrongful or wilful act or omission by Ernst & Young.

Insurance premiums

The Company has paid insurance premiums for one year of cover in respect of Directors' and Officers' liability insurance, for Officers of the Company and of its controlled entities. The insurance cover is on standard industry terms and provides cover for loss and liability for wrongful acts in relation to the relevant person's role as an Officer, except that cover is not provided for loss in relation to Officers gaining any profit or advantage to which they were not legally entitled, or Officers committing any criminal, dishonest, fraudulent or malicious act or omission, or any knowing or wilful violation of any statute or regulation. Cover is also only provided for fines and penalties in limited circumstances and up to a small financial limit. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy including the amount of the premiums.

ENVIRONMENTAL REGULATION

The Consolidated Entity takes a responsible approach in relation to the management of environmental matters.

The Consolidated Entity is subject to and has complied with the reporting and compliance requirements of the *National Greenhouse and Energy Reporting Act 2007* (Cth) (NGER Act). No environmental breaches have been notified to the Consolidated Entity by any government agency.

The NGER Act requires the Consolidated Entity to report its annual greenhouse gas emissions and energy use. The Consolidated Entity has implemented systems and processes for the collection and calculation of the data required, and will submit its annual report to the Greenhouse and Energy Data Officer in compliance with the requirements of the NGER Act.

DIRECTORS' REPORT

AUDIT SERVICES

Auditor's independence declaration

The auditor's independence declaration to the Directors of the Consolidated Entity in relation to the auditor's compliance with the independence requirements of the *Corporations Act 2001* (Cth) and the professional code of conduct for external auditors, forms part of the Directors' Report.

No person who was an Officer of the Consolidated Entity during the financial year was a director or partner of the Consolidated Entity's external auditor at a time when the Consolidated Entity's external auditor conducted an audit of the Consolidated Entity.

Non-audit services

No non-audit services were undertaken by the Consolidated Entity's external auditor, Ernst & Young, during the 52 weeks ended 28 July 2012.

Audit services

During the 52 weeks ended 28 July 2012, the following fees were paid or were due and payable for services provided by the external auditor of the Consolidated Entity:

	CONSOLIDATED	
	2012	2011
	\$	\$
Audit and review of the Financial Statements	505,000	591,965
Other assurance related services	55,500	-
Total auditor's remuneration	560,500	591,965

Signed in accordance with a resolution of the Directors:



Robert Savage
Chairman
Sydney, 19 September 2012



Paul Zahra
Chief Executive Officer and Managing Director

PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought on behalf of the Company, nor has any application been made in respect of the Company under section 237 of the *Corporations Act 2001* (Cth).

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/100 issued by the Australian Securities and Investment Commission and in accordance with that Class Order as in force as at 28 July 2012, amounts in this Report and the accompanying Financial Statements have been rounded to the nearest one thousand dollars unless otherwise indicated.

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED)

MESSAGE FROM THE BOARD

Dear Shareholder

We are pleased to introduce David Jones Remuneration Report for the financial year ended 28 July 2012. This report provides the detailed outcomes of Director and executive remuneration for FY2012 and outlines the incentive arrangements the Company intends to introduce for FY2013.

The FY2009 - FY2012 Long Term Incentive (LTI) plan finished in FY2012. Under the rules of this plan 1,526,680 rights converted to shares on 19 September 2012. No LTI offers were made to executives during FY2012.

During the year the Company conducted a review of its remuneration framework to ensure that it continues to meet the needs of the business, recognises prevailing market practice and remains aligned with shareholder interests.

The revised remuneration framework which will be effective in FY2013, and in particular the incentive plans, are designed to facilitate the achievement of the Future Directions Strategic Plan announced by the Company in March 2012.

The key changes the Company will introduce in FY2013 are as follows:

- A revised Short Term Incentive (STI) program with performance measures linked to both the achievement of the Company's financial targets and an executive's contribution to the achievement of our strategic objectives;
- The deferral of the above budget component of an executive's STI for a period of one year;
- The introduction of a three-year rolling LTI plan with both a total shareholder return and earnings per share performance measure; and
- LTI arrangements to be limited to the Chief Executive Officer and Managing Director and members of the Executive Committee with the offer of a total of 1,100,000 rights to be confirmed following the 2012 Annual General Meeting.

To assist with the reading of this report, a glossary of key terms used is provided in appendix two.



Peter Mason

Chairman Remuneration and Nominations Committee



Robert Savage

Chairman

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

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DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

1. COMPANY APPROACH TO EXECUTIVE REMUNERATION

This remuneration report outlines the remuneration arrangements for Key Management Personnel (KMP). The term KMP refers to those persons having the authority and responsibility for planning, directing and controlling the activities of David Jones, directly or indirectly. KMP includes Non-executive Directors, Executive Directors and senior management of the Company. Generally in this report the term "executive" is used to refer to the KMP other than the Non-executive Directors.

1.1 Remuneration philosophy

The David Jones remuneration philosophy is integral to embedding a results orientated culture and is designed to ensure the Company remunerates employees in a way that recognises and rewards performance that is aligned to the interests of shareholders. The key components of David Jones' approach to performance and remuneration are set out below:

- applying a "pay for performance" philosophy that directly links employee remuneration to the achievement of individual results and the Company's overall performance;
- balancing incentives to appropriately reward superior results in the short term and sustained performance over the long term;
- ensuring employees are remunerated in a way that recognises and rewards individual performance while upholding the longer term interests of shareholders; and
- providing remuneration that is market competitive to enable the attraction, motivation and retention of high performing employees.

David Jones competencies describe the skills, capabilities and behaviours required of employees in order to achieve their outcomes. These competencies have been incorporated into all performance-based programs and link recognition, reward and remuneration. The David Jones competencies are summarised as follows:

- universal competencies – apply to all employees and include Live for our Customers, Strive to Achieve, See it Do it, Unite the Business; Think Safe, Act Safe, Be Safe; and the Face of David Jones;
- management competencies – apply to line managers in addition to the universal competencies and include Results through Others; Business Savvy; Cost Consciousness; and Shape our Future; and
- executive competencies – apply to executives in addition to the universal and management competencies and includes aspects such as strategic planning and break-through thinking.

The high performance culture established at David Jones has been derived from achieving an effective balance between "what" an employee delivers, "how" they go about doing this and the increased focus on aligning Company performance with employee remuneration.

1.2 Remuneration governance

The Board is ultimately responsible for determining the structure and quantum of remuneration for the executives of the Company. To assist the Board, the Remuneration and Nominations Committee (RNC) is responsible for preparing remuneration recommendations for Board approval.

In FY2012 the RNC engaged PricewaterhouseCoopers (PwC) as its remuneration advisor. PwC were engaged by the RNC to provide the following services and information to the RNC:

- provision of market benchmarking services for executive roles;
- review of the proposed changes to incentive plans for FY2013; and
- review of peer group selected for Total Shareholder Return (TSR) performance measures included in the Long Term Incentive (LTI) plan.

This information was used by the RNC in determining the remuneration arrangements for FY2013. PwC did not provide any remuneration recommendations to the RNC and as such are not considered to be a Remuneration Consultant as defined in the Corporations Act 2001 (Cth).

All reports prepared by PwC that relate to executive remuneration were issued directly to the Chairman of the RNC for consideration and, where appropriate, distributed to the Group Executive Human Resources for management consideration and input.

The Chief Executive Officer and Managing Director, Chief Financial Officer (CFO) and Group Executive Human Resources are regularly invited to attend RNC meetings to provide the RNC with financial and other information to assist the RNC in making the most appropriate decisions for the Company.

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

Matters considered by the executive management of the Company include:

- ensuring alignment between the remuneration arrangements for KMP roles and other senior management;
- appropriate cascading of performance measures between KMP and non-KMP roles;
- the succession of talent from non-KMP to KMP roles; and
- provision of remuneration data to the RNC to enable assessment of remuneration arrangements of the KMP against the market information provided by PwC.

1.3 Executive remuneration structure

The Company's remuneration structure for the executives has three key components:

- Fixed Remuneration (FR);
- Short Term Incentives (STI); and
- Long Term Incentives (LTI).

1.3.1 Balance of remuneration components

The Company's remuneration structure is designed to achieve an effective balance between fixed and variable components of remuneration, specifically, to drive decisions and behaviours that focus on achieving short-term annual results, while at the same time giving consideration to the longer term profitability of the Company and long term shareholder value creation.

1.3.2 Fixed Remuneration

David Jones' policy in relation to remuneration is to provide "at market" remuneration for fulfilling target requirements of the role and the opportunity for "above market" remuneration for superior performance.

Fixed remuneration is comprised of base salary, superannuation guarantee contributions and other benefits provided through salary sacrificing arrangements. Fixed Remuneration is benchmarked against the market considering factors such as individual performance, position accountabilities, qualifications and experience.

An annual appraisal process is undertaken on the individual performance of all executives. Any adjustment to Fixed Remuneration is based on market related data and takes account of the executive's individual performance. Individual performance is assessed against both David Jones' competencies and Key Result Areas (KRAs) relevant to the employee's annual objectives.

The result of the executive's individual appraisal is linked to the annual remuneration review and impacts what, if any, increase will be received. No increases are guaranteed.

1.3.3 Short Term Incentives

The STI is a performance-based incentive arrangement designed to link specific annual targets (predominantly financial) with the opportunity to earn cash-based incentives based on a percentage of Fixed Remuneration.

The objectives of the STI are to:

- reinforce and embed the "pay for performance" philosophy underpinning the remuneration philosophy;
- motivate employees towards the achievement of the Company's results;
- reward results and behaviours consistent with the Company's objectives and values; and
- reinforce individual accountability for achieving financial targets.

To ensure continuous improvement, the STI performance measures are reviewed and communicated annually. At the beginning of the financial year the RNC recommends to the Board the performance targets and measures that will apply to executives for that year.

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

At the end of the financial year, there is a formal evaluation process to determine the level of achievement against the Company and individual performance measures and resultant STI payment for each executive. The process is set out below:

- management completes draft STI calculations based on the preliminary financial statements which have been subject to an independent review;
- the RNC reviews the calculations and validates the achievement of each hurdle and qualifier;
- the RNC recommends the STI to be paid to each executive to the Board for approval; and
- the Board reviews the RNC recommendations and approves STI payments as appropriate.

Specific information relating to the STI outcomes for executives relating to FY2012 are detailed on page 9 of this report.

1.3.4 Long Term Incentives

David Jones provide long term performance based incentives to its executives through a LTI designed to link employee reward to performance measures that drive sustainable growth in shareholder value.

The objectives of the LTI are to:

- align the interests of executives with shareholder interests;
- balance short-term with long-term Company focus; and
- retain high calibre executives by providing an attractive equity-based incentive.

In principle, only executives who are able to directly influence the long-term success of the Company and who exhibit a consistent level of high performance are nominated for LTI participation. Participation in the LTI is subject to annual Board approval in accordance with the LTI plan rules. Where required by legislation, participation in the LTI for Executive Directors is subject to the approval of shareholders in accordance with ASX Listing Rules.

All LTI rights are nil exercise price rights and no consideration is paid by the executive when they vest. One right is equal to a maximum of one share. Participants are prohibited from entering into transactions in financial products that operate to limit the economic risk of unvested rights including any hedging or similar arrangement.

The number of LTI rights granted to executives is derived from a percentage of Fixed Remuneration. The percentage of Fixed Remuneration is based on their position, accountability, performance and external market data.

Vesting of any rights granted under the LTI are linked to the achievement of Company based performance measures. The performance measures are chosen by reference to a number of factors at the time that the rights are granted including, for example, the Company's future objectives and prevailing market practice. The RNC receives feedback from its remuneration advisor relating to the type of performance measures used for each equity grant.

All offers made are subject to the Corporations Act, ASX Listing Rules and the terms of the LTI plan rules. Pursuant to the LTI plan rules, the Board may amend, waive or replace the performance measures if there is a significant event that was not foreseen in the Company's business plan for the period.

The following process is followed to assess the performance of the Company and determine whether any rights have vested and will convert to shares:

- management prepares the calculation of the Company's performance against the measures set by the RNC. These calculations are based on the draft financial statements;
- Ernst & Young as auditor performs procedures over the vesting calculations as part of the audit of this report;
- results of the Ernst & Young procedures are presented to the RNC for consideration and endorsement as appropriate;
- RNC presents final vesting details to the Board for approval; and
- Board approved share allocations are registered to the participant.

The Company's Share Trading Policy sets out the basis on which Directors and executives may deal with their shares and any LTI rights. For the executives the approval of the RNC is required to access and deal with any shares.

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

2. DIRECTORS AND EXECUTIVES COVERED BY THIS REPORT

The persons set out in the table below were KMP of the Company at any time during the financial year.

In terms of the executive management, the Board determined that members of the Executive Committee meet the definition of the KMP of the Company. During the reporting period there were a number of changes to the KMP. These are outlined below. Details of the remuneration arrangements of the KMP can be found in sections seven and nine of this report.

Name	Title	Period of Responsibility
Executive Directors		
Paul Zahra	Chief Executive Officer and Managing Director	31 July 2011 – 28 July 2012
Stephen Goddard ¹	Finance Director	31 July 2011 – 1 April 2012
	Executive Director	1 April 2012 – 28 July 2012
Non-executive Directors		
Robert Savage AM	Chairman and Independent Non-executive Director	31 July 2011 – 28 July 2012
John Harvey	Independent Non-executive Director	31 July 2011 – 28 July 2012
Peter Mason AM	Independent Non-executive Director	31 July 2011 – 15 June 2012
	Deputy Chairman and Independent Non-executive Director	16 June 2012 – 28 July 2012
Philippa Stone	Independent Non-executive Director	31 July 2011 – 28 July 2012
<i>Appointments:</i>		
Steve Vamos	Independent Non-executive Director	5 June 2012 – 28 July 2012
<i>Retirements:</i>		
John Coates AC	Deputy Chairman and Independent Non-executive Director	31 July 2011 – 3 May 2012
Katie Lahey	Independent Non-executive Director	31 July 2011 – 25 June 2012
Reginald Clairs AO	Independent Non-executive Director	31 July 2011 – 29 February 2012
Executives		
Antony Karp	Group Executive – Retail Development	31 July 2011 – 28 January 2012
	Group Executive – Retail Services ²	29 January 2012 – 28 July 2012
Cate Daniels	Group Executive - Operations	31 July 2011 - 28 July 2012
David Robinson	Executive – Omni Channel Strategy and Integration	31 July 2011 – 28 July 2012
Matthew Durbin ³	Group Executive - Financial Services	31 July 2011 - 28 July 2012
Paula Bauchinger	Group Executive – Human Resources	31 July 2011 - 28 July 2012
Sacha Laing ⁴	Group Executive - Fashion and Beauty	31 July 2011 - 28 July 2012
<i>Appointments:</i>		
Brad Soller	Chief Financial Officer	2 April 2012 – 28 July 2012
Donna Player	Group Executive – Merchandise	4 July 2012 – 28 July 2012
<i>Cessation of employment:</i>		
Karen McLachlan	Group Executive - Information Technology	31 July 2011 – 24 May 2012
Brett Riddington	Group Executive – Marketing	31 July 2011 – 9 May 2012
Patrick Robinson	Group Executive – Home and Food	31 July 2011 – 9 May 2012

¹ Stephen Goddard is to retire from his position as Executive Director on 31 October 2012.

² The role of Group Executive – Retail Services has accountability for both Information Technology and Retail Development.

³ Since the end of FY2012 Matthew Durbin moved from Group Executive – Financial Services to Executive - Strategic Planning.

⁴ Since the end of FY2012 Sacha Laing moved from Group Executive - Fashion and Beauty to Group Executive – Marketing and Financial Services

Shareholdings of the KMP and changes during the year can be found in Note 28 of the Financial Statements.

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

3. SUMMARY OF EXECUTIVE REMUNERATION OUTCOMES FOR FY2012

As outlined in section 1.3, executive remuneration has three key components: Fixed Remuneration, STI and LTI. The following table sets out the executive remuneration mix for the achievement of target performance during FY2012:

	Position	% OF TOTAL REMUNERATION		
		Fixed Remuneration	STI	LTI
Executive Directors	Chief Executive Officer and Managing Director	42	32	26
	Executive Director	52	26	22
Executives	Executive Committee ¹	47 - 65	21 - 26	10 - 32

Notes:

¹ Excludes the Chief Executive Officer and Managing Director and Executive Director, executives who ceased employment during the reporting period and both the Chief Financial Officer and Group Executive - Merchandise who were not eligible for STI or LTI in FY2012.

The following table provides a summary of the remuneration outcomes during FY2012 for the executives who were employed by the Company at the end of the 2012 financial year. Section seven contains the remuneration tables which are prepared in accordance with statutory obligations and applicable accounting standards. The STI and LTI outcomes represent the proportion of the STI and LTI that either vested or was forfeited during FY2012 as a result of the Company not meeting the FY2012 performance measures.

Name	Fixed Remuneration ¹ (\$)	STI (\$)	LTI ² (\$)	Other ³ (\$)	Total (\$)	STI outcome vested / (forfeited) (%)	LTI outcome vested / (forfeited) (%)
P Zahra	1,252,496	-	368,486	38,076	1,659,058	0% / (100)%	31% / (69)%
S Goddard	1,024,628	-	315,137	24,026	1,363,791	0% / (100)%	31% / (69)%
A Karp	723,475	100,000	(61,905)	20,542	782,112	23% / (77)%	31% / (69)%
C Daniels	547,758	-	471,061	9,787	1,028,606	0% / (100)%	31% / (69)%
D Robinson	411,804	96,000	122,430	10,727	640,961	60% / (40)%	31% / (69)%
M Durbin	432,017	45,283	269,122	9,572	755,994	21% / (79)%	31% / (69)%
P Bauchinger	402,174	-	(21,332)	11,267	392,109	0% / (100)%	31% / (69)%
S Laing	466,816	-	273,640	12,590	753,046	0% / (100)%	31% / (69)%
Appointments							
B Soller ⁴	286,219	-	-	335	286,554	-	-
D Player ⁴	58,489	-	-	63	58,552	-	-

¹ Fixed Remuneration represents the amount of cash salary, packaged benefits, superannuation and other non-cash benefits received by each executive in the reporting period.

² Long Term Incentive is valued in accordance with the AASB2 Accounting for Share Based Payment. The negative figures represent a reversal of accounting expenses in FY2012 due to the forfeiture or lapsing of rights resulting from performance conditions not being met.

³ Other represents Long Service Leave.

⁴ Remuneration for appointments during the year is based on the commencement date of the employee. B Soller and D Player were not eligible to participate in the Company's STI or LTI for FY2012.

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

4. FY2012 SHORT TERM INCENTIVES

4.1 Overview

Participation in the FY2012 STI was conditional on achieving the required level of performance in the annual performance appraisal process. To qualify for annual participation in the FY2012 STI, an employee must have achieved the KRAs applicable to their role, as well as having consistently demonstrated the behaviours comprising the David Jones competencies. If an employee did not achieve the Company's target appraisal score they were not entitled to participate in the FY2012 STI even if they achieved the hurdles and qualifiers.

At the commencement of the financial year eligible employees were advised of their potential STI reward and the hurdles and qualifiers they needed to achieve to qualify for an FY2012 STI payment. The nature of the FY2012 STI hurdles and qualifiers is summarised below:

- each employee was allocated a minimum of two hurdles and four qualifiers;
- both hurdles must have been achieved in order to earn an STI payment (i.e. irrespective of performance, if one hurdle was not met, no STI was payable);
- if the hurdles were achieved, the employee was further assessed against a number of qualifiers specific to their position;
- the number of qualifiers achieved determined the actual percentage of their STI payment;
- the employees' STI reward quantum was determined by reference to a percentage of their Fixed Remuneration which was based on their position, accountability, performance and external market data.

As a result of the hurdles only three executives were eligible for an STI payment in FY2012.

In FY2012 the STI was uncapped for all executives except the Executive Directors (Chief Executive Officer and Managing Director and Finance Director). Any STI outcomes for above budget performance were directly linked to the level of increased profit that was generated and were subject to Board approval. For FY2012 the Chief Executive Officer and Managing Director and Finance Director's annual STI was capped at 125% of their Fixed Remuneration.

Once approved by the Board the STI payments are made to participants in cash, generally in October of each year. For the FY2012 STI the RNC approved the STI payments on 14 September 2012.

4.2 Performance measures for FY2012

At the beginning of the financial year the RNC recommended to the Board the performance targets and measures that applied to executives for the year. The financial hurdles that must be achieved for an STI to be paid was determined by the Board with other measures, or qualifiers, selected to reflect the Company's strategic priorities.

Financial hurdles for the executives focus on the achievement of Profit After Tax (PAT), with the exception of the Group Executive Financial Services role which has Financial Services Earnings Before Tax (FS EBT) as a hurdle to reflect the strategic importance of the Financial Services business. These financial hurdles were selected on the basis that they have a direct correlation the financial performance of the Company and to shareholder returns.

In addition to the financial hurdle, each executive had a hurdle relating to the successful development and Board approval of the Future Directions Strategic Plan. This hurdle was chosen by the Board in recognition of the importance of the development of a strategic plan to the Company.

The STI qualifiers determine the quantum of STI that will be paid. For the executives the qualifiers were predominantly financial in nature and related to the achievement of Company Profit After Tax (PAT), sales growth, agreed profit levels relevant to the business unit (eg Store Net Profit (SNP), Buying Gross Profit (BGP)), cost management and project deliverables (through both Cost of Doing Business (CODB) and Capital Expenditure (CAPEX)). The Chief Executive Officer and Managing Director, Group Executive - Retail Services and Executive - Omni Channel Strategy and Integration also had a qualifier relating to the development and implementation of the Company's Omni Channel Strategy. This qualifier was chosen in recognition of the strategic importance of the successful implementation of an Omni Channel Strategy to the Company.

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

For FY2012 the hurdles required to be achieved before an incentive was paid and the key STI qualifiers for eligible executives are set out below. Target STI is the level of STI that would be achieved for meeting all hurdles and qualifiers:

Role	Annual STI Target (% of FR)	Maximum STI (% of FR)	Hurdles		Qualifiers					
			Key Profit	Business imperative	PAT	Business Profit	Sales Growth	CAPEX budget	CODB savings	Omni channel strategy
P Zahra ¹	75%	125%	PAT	Future Directions Strategic Plan approved by the Board	✓	-	✓	✓	✓	✓
S Goddard	50%	125%	PAT		✓	-	✓	✓	✓	
C Daniels	45%	Uncapped	PAT		✓	SNP	✓		✓	
S Laing	45%		PAT		✓	BGP	✓		✓	
M Durbin	45%		FS EBT		✓	FS EBT	✓		✓	
A Karp ²	45%		PAT		✓	-	✓	✓	✓	✓
P Bauchinger	40%		PAT		✓				✓	
D Robinson ³	40%		PAT ³	Development of Omni Channel strategy, plan & delivery of FY2012 initiatives	✓		✓			✓

Notes

¹ P Zahra's incentive target was increased to 75% of Fixed Remuneration during the year to align the Chief Executive Officer and Managing Director's Total Remuneration with the market. In reaching this decision, the RNC considered market information provided to it by PwC.

² A Karp (Group Executive - Retail Services) had the opportunity to earn an additional incentive of \$100,000 specifically relating to the delivery of the Company's key strategic projects such as Omni Channel Retail and Point of Sale (POS).

³ To recognise the strategic importance of delivering the Omni Channel Strategy the PAT hurdle for D Robinson (Executive - Omni Channel Strategy and Integration) was removed for FY2012. This enabled the achievement of an incentive outcome even though the PAT profit hurdle was not met.

In addition, although not eligible for an STI in FY2012 B Soller (CFO) has a target STI of 50% of Fixed Remuneration and a maximum STI of 125% of Fixed Remuneration and Donna Player (Group Executive Merchandise) has an STI target of 45% of Fixed Remuneration.

4.3 FY2012 performance and incentive outcomes

The following key performance outcomes were achieved in FY2012:

- The PAT hurdle was not achieved;
- The business imperative hurdles were achieved;
- The FS EBT hurdle was achieved; and
- Sales growth was not achieved.

The following STI payments were made to executives based on the achievement of FY2012 performance measures:

Executive	Target STI	STI outcome (\$)	% of STI Total achieved	Comments
M Durbin	\$213,750	\$45,283	21%	- Related to the achievement of the FS EBT target. - No other measures were achieved.
D Robinson	\$160,000	\$96,000	60%	- Related to the achievement of key Omni Channel milestones in FY2012.
A Karp	\$442,990 ¹	\$100,000	23%	- Related to the delivery of key milestones on the Point of Sale and Omni Channel retail implementation projects.

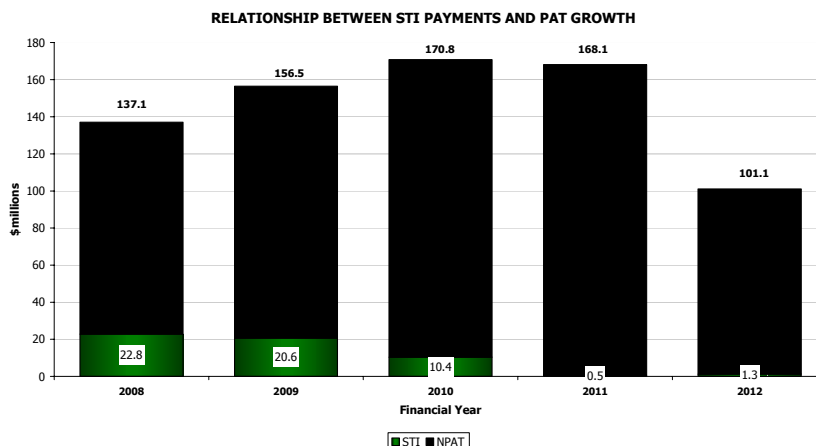
¹ The incentive target of \$442,990 for A Karp included both the annual incentive target of 45% of Fixed Remuneration and a project based incentive of \$100,000. As the PAT hurdle was not met, A Karp forfeited all of the 45% annual profit based STI. The payment of \$100,000 represents 100% achievement of the project based incentive.

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

4.4 Link to Company performance

The graph below demonstrates the relationship between the total STI payments for the Company and PAT over the last five financial years. PAT is measured on an underlying basis and therefore excludes one off transactions. As it can be seen in the graph STI payments to executives decreased in line with Company performance in FY2011 and FY2012. This was a result of the PAT hurdle not being met in both FY2011 and FY2012.

The Total STI payable to executives for FY2012 is \$241,283. The balance of the STI payments relates to STI plan participants in roles below the executive level who have achieved budgeted profit targets such as Store Net Profit, Buying Gross Profit and FS EBT.



5. FY2009 – FY2012 EXECUTIVE RETENTION PLAN

The FY2009 – FY2012 Executive Retention Plan (ERP) was the only executive LTI in existence during the financial year. The following section provides details regarding the performance outcomes of the final year of the ERP.

The ERP was implemented in 2008 and was aligned to the Company's FY2009-FY2012 strategic plan. The ERP was designed to achieve a number of outcomes including:

- the ongoing tenure and continuity of the skills and expertise of key executives;
- to incentivise key executives to maximise shareholder return, particularly during the downturn experienced in FY2009 and FY2010; and
- to ensure the delivery of the Company's FY2009 – FY2012 strategic plan.

The grant was made to executives on 24 July 2008 and comprised four tranches corresponding to each of the FY2009, FY2010, FY2011 and FY2012 years. Whilst the rights were subject to attaining certain performance and service conditions, a staggered vesting schedule was implemented to promote retention across the plan period and ensure employees were incentivised through the life of the plan. The vesting dates for the plan are set out below:

Tranche	Financial Year	Vesting schedule (%)	Vesting date (allocation of shares)
1	FY2009	20%	September 2010
2	FY2010	20%	September 2011
3	FY2011	20%	September 2011
4	FY2012	40%	September 2012
TOTAL		100%	

5.1 Performance measures

ERP targets for executives were based on the achievement of two company based performance measures being Profit After Tax (PAT) and relative Total Shareholder Return (TSR).

PAT and TSR were selected as the performance hurdles on the basis that both measures can be directly linked to the performance of the Company and together offered an appropriate balance between non-market based and market based performance measures.

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

PAT growth can be directly linked to executive decision-making and is aligned to shareholder wealth, and accordingly was considered by the Board to be the most appropriate non-market performance measure for the ERP.

TSR is a measure of the return a shareholder obtains from ownership of shares in the Company during a defined period of time and takes into account changes in the market value of the shares and dividends paid. TSR was measured by reference to the share price appreciation over the measurement period plus dividends, expressed as a percentage of the investment and reflects the increase in value delivered to shareholders over the performance period.

The primary reasons for using TSR as a performance measure were as follows:

- TSR outcomes are a fair reflection of the Company's performance;
- TSR is a truly comparative external benchmark when measured against a well-selected peer group; and
- TSR was the prevailing external measure most used by companies at the time ERP was implemented.

TSR was measured against a peer group of companies with the Company's performance assigned a percentile ranking based on its performance relative to other constituents of the comparator group (the highest ranking company being ranked at the 100th percentile).

The comparator group was comprised of both retail and non-retail ASX 300 companies which were considered to be impacted by consumer spending and sentiment and/or economic cycles. The table below provides the peer group applicable to the TSR performance measure for FY2012:

Retail comparators	Other consumer discretionary comparators
Funtastic Limited, Harvey Norman Holdings Limited, JB Hi-Fi Limited, Metcash Limited, Nick Scali Limited, Orotongroup Limited, Specialty Fashion Group Limited, Super Retail Group Limited and Woolworths Limited.	APN News & Media Limited, Consolidated Media Holdings Limited, Fairfax Media Limited, Fisher & Paykel Appliances Holdings Limited, Flight Centre Limited, Globe International Limited, G.U.D Holdings Limited, Breville Group Limited, Kresta Holdings Limited, Pacific Brands Limited, PMP Limited, Salmat Limited, Seven Group Holdings Limited, STW Communications Group Limited, Ten Network Holdings Limited, Wesfarmers Limited and Seven West Media Limited.

5.2 Performance and vesting outcomes for FY2012

The following table summarises the performance and vesting outcomes for FY2012:

Key terms	PAT rights	TSR rights
Performance period	FY2012 PAT growth measured by reference to FY2008 as the base year Assessment based on audited financial statements for the base year (FY2008) and preliminary financial statements for the assessment year (FY2012)	Average daily closing price of David Jones shares for the last three months of FY2012 compared to the last three months of FY2008. The performance outcome was independently reviewed.
FY2012 weighting	50% of Tranche 4 allocation.	50% of Tranche 4 allocation.
Vesting schedule	50% of PAT rights vest at 5% PAT growth. 100% of PAT rights vest at 10% PAT growth. Pro-rata vesting is achieved between 5% and 10% PAT growth.	50% of TSR rights vest at 50 th percentile performance against the peer group. 100% of TSR rights vest at 75 th percentile performance against the peer group. Pro-rata vesting is achieved between 50 th percentile and 75 th percentile performance.
Performance outcome	Not met	55 th percentile
Retest facility	No	No
Vesting outcome	No rights vested	61% vested (39% forfeited)
Allocation date	Not applicable	19 September 2012

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

5.3 Link to company performance

The past five years PAT and TSR performance and the resultant vesting under the FY2009- FY2012 ERP are set out below. From the tables it can be seen that both the PAT and TSR performance of the Company have declined in FY2011 and FY2012 which has resulted in the decreased vesting of rights under the plan. A total of 69% of the rights granted under the plan vested as a result of Company performance.

PAT performance over the last five years:

Financial year	PAT (\$m)	PAT growth year on year (%)	Compound PAT growth against 2008 base (%)	PAT rights performance outcome	% of PAT rights that vested
FY2008	137.1	25.2%	-	-	-
FY2009	156.5	14.2%	14.2%	Stretch	100%
FY2010	170.8	9.1%	11.6%	Stretch	100%
FY2011	168.1	(1.6)%	7.0%	Between target and stretch	70%
FY2012	101.1	(39.9)%	(7.3)%	Below target	0%

TSR performance over the last five years:

Financial year	Share price at the end of the financial year ¹	Total dividends declared (cents)	Company TSR return (%)	TSR Peer Group Ranking FY2009- FY2012 ERP (percentile)	% of TSR rights that vested
FY2008	\$3.34	27.0	104.2%	-	-
FY2009	\$5.05	28.0	35.9%	Above 75 th	100%
FY2010	\$4.80	30.0	54.3%	Above 75 th	100%
FY2011	\$3.00	28.0	48.6%	Above 75 th	100%
FY2012	\$2.40	17.5	(6.1)%	55 th	61%

¹ The opening share price for each financial year is the same as the closing share price for the prior financial year. The opening share price for FY2008 was \$5.63.

The following table summarises the percentage of each tranche that vested or was forfeited over the life of the ERP:

Tranche	Period	Performance measure	Weighting as a % of total allocation	% of allocation that vested	% of allocation forfeited	Allocation date
1	FY2009	PAT	14%	100%	-	September 2010
		TSR	6%	100%	-	
2	FY2010	PAT	14%	100%	-	September 2011
		TSR	6%	100%	-	
3	FY2011	PAT	10%	70%	(30)%	September 2011 ¹
		TSR	10%	100%	-	
4	FY2012	PAT	20%	-	(100)%	September 2012
		TSR	20%	61%	(39)%	
	FY2009- FY2012	TOTALS	100%	69%	(31)%	
	Represented by:	<i>TOTAL PAT</i>	<i>58%</i>	<i>60%</i>	<i>(40)%</i>	
		<i>TOTAL TSR</i>	<i>42%</i>	<i>81%</i>	<i>(19)%</i>	

¹ As noted in the FY2011 Remuneration Report additional Tranche 3 rights were granted to the Chief Executive Officer and Managing Director and Finance Director on 3 December 2010 and other executives on 1 November 2010. These additional Tranche 3 rights had the same performance measure as those rights initially granted under the terms of the FY2009- FY2012 ERP, however a two year service condition was implemented resulting in an allocation date of September 2012.

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

5.4 Service condition

In addition to the performance measures a service condition applied to the ERP. The main condition was that an employee had to be employed on a continuous basis from the date of grant to the relevant allocation date.

For FY2012 the employment condition was not met for Karen McLachlan (Group Executive - Information Technology) on the basis that she ceased employment prior to the allocation date.

Under the terms of the plan, the Board exercised its discretion to lift the service condition for Brett Riddington (Group Executive - Marketing) and Patrick Robinson (Group Executive - Home and Food) on the basis that their positions were made redundant on 9 May 2012.

6. FUTURE DIRECTIONS – CHANGES TO INCENTIVE PLANS FOR FY2013

6.1 Overview

In FY2012 the Company reviewed the Total Remuneration arrangements for the executives to identify areas for improvement, to ensure that the Company maintains a market competitive approach to its remuneration arrangements and to ensure that the remuneration arrangements continue to support the achievement of the Company's strategic goals. In addition, the current LTI arrangements for executives came to an end in FY2012 with the final tranche of the ERP having vested.

The objective of the Company in the design of the FY2013 incentive plans has been to balance a number of diverse business and stakeholder objectives including:

- long-term and sustainable value creation for shareholders;
- attraction and retention of key talent through incentive plans that continue to motivate executives to achieve both financial and non-financial strategic goals; and
- alignment with external perspectives including prevailing market practice, the views of institutional investors and draft legislation.

6.2 FY2013 remuneration structure

As outlined in section 1.3 the executive remuneration is delivered in the form of fixed and variable remuneration.

The following table illustrates the proposed remuneration mix by role for FY2013. This remuneration mix has been determined by the RNC based on a review of current market practice provided to the RNC by its remuneration advisor, PwC.

Position	% OF REMUNERATION (At target performance)			
	Fixed Remuneration	STI	LTI	
Executive Director	Chief Executive Officer and Managing Director	46	35	19
Executives	Chief Financial Officer	55	28	17
	Executive Committee ¹	53 - 59	24 - 38	10 - 19

¹ Reflects the remuneration mix of the members of the Executive Committee excluding the Chief Executive Officer and Managing Director and Chief Financial Officer.

6.3 FY2013 Short Term Incentive Plan

A number of changes have been implemented for the FY2013 Short Term Incentive (STI). These changes have been implemented to ensure the variable components of the remuneration of the executive remain aligned with prevailing market practice. The changes have been developed to ensure that they can be cascaded through the Company as appropriate.

PwC has reviewed the arrangements relating to the executives and provided the RNC with a report on the proposed structure. This report provided commentary on factors such as the length of the performance period, type of equity used, performance measures selected and consideration of market and other stakeholder perspectives. The RNC considered the information provided by PwC and management and provided a recommendation to the Board to approve the new plan.

The following arrangements for the FY2013 STI have been approved by the Board:

- targets will remain at the current levels expressed as a percentage of Fixed Remuneration (as outlined in section four regarding FY2012 STI);
- capping will be extended from the Chief Executive Officer and Managing Director to all executives. Capping will remain at 125% of Fixed Remuneration for the Chief Executive Officer and Managing Director and CFO with other executives capped at 100% of Fixed Remuneration;

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

- an STI deferral will be introduced with a proportion of STI outcome delivered as rights over the shares in the Company. The amount subject to deferral will be the component of any incentive outcome achieved between the target STI amount and the maximum, or capped STI amount. For example, for the Chief Executive Officer and Managing Director the deferred amount will be any incentive outcome above 75% of Fixed Remuneration up to the capped amount of 125% of Fixed Remuneration;
- the cash equivalent of dividends will be paid to holders of rights that have performance vested but where a participant has not yet met the service condition: and
- deferred rights will be subject to a service condition such that a participant must be employed on the date the rights convert to shares. The rights may also be forfeited if there has been a financial mis-statement or breach of the Company's Code of Ethics and Conduct. This is to ensure that there is an enhanced connection between executives and shareholders.

6.4 FY2013 - FY2015 Executive Long Term Incentive Plan

The following section contains details of the Executive Long Term Incentive Plan (ELTIP) covering the period FY2013 to FY2015.

The Company has introduced the ELTIP for the following reasons:

- the current ERP finished in FY2012 and there was no LTI in which the executives participate beyond FY2012;
- the Company's remuneration philosophy and prevailing market practice is for the Chief Executive Officer and Managing Director and other executives to have a balanced Total Remuneration comprising of FR, STI and LTI;
- the continued alignment of the reward outcomes of executives with the long-term performance of the company and returns to shareholders; and
- the attraction and retention of executives by providing a market competitive Total Remuneration package.

The following table provides a summary of the key terms of the ELTIP for the executives of the Company:

Key terms	Comments
Performance period	FY2013 to FY2015 (three financial years). The Company considers a three year performance period is a reasonable period over which to measure shareholder returns and is in line with general market practice.
Equity granted	Performance rights converting to shares on a one-for-one basis upon vesting. No consideration is payable by the executive for the right or any shares acquired as a result of exercising the right.
Performance measures	Relative Total Shareholder Returns (TSR) and compound Earning Per Share (EPS) growth over the performance period. There is no re-test facility.
Performance weighting	50% of total allocation of rights weighted to TSR. 50% of total allocation of rights weighted to compound EPS.
Vesting and allocation dates	Rights will vest following the determination of the Company's performance against the performance measures based on the FY2015 Financial Statements. Vesting calculations will be reviewed independently. Any vested rights will convert to shares in September 2015.
TSR performance schedule	Company performance will be measured against a peer group of ASX listed companies in the consumer discretionary sector: <ul style="list-style-type: none"> - 50% of TSR rights vest if the Company achieves 51st percentile performance. - 100% of TSR rights vest if the company achieves 75th percentile performance. - Pro-rata vesting between the 51st and 75th percentiles.
EPS performance schedule	The vesting of EPS rights will be based on the achievement of compound annual growth of EPS above the FY2012 base year: <ul style="list-style-type: none"> - 50% of EPS rights vest if 5% compound EPS growth achieved. - 100% of EPS rights vest if 10% compound EPS growth achieved. - Pro-rata vesting between 5% and 10% compound growth.
Service condition	Participants must be employed on the date that the rights convert to shares (September 2015). In redundancy situations the number of rights that could vest will be pro-rated from the commencement of the performance period to the date of redundancy. Any incentive outcome will remain subject to the achievement of the performance measures as assessed at the end of FY2015.

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

6.4.1 Selection of performance measures

For the FY2013 – FY2015 ELTIP the performance measures adopted by the Board are relative TSR and compound growth in EPS.

An even allocation weighting between TSR and EPS has been selected to ensure that there is a balance between an external, market based performance measure (relative TSR) and an internal measure which takes into account both absolute increases in earnings and capital management (EPS).

Total Shareholder Returns (TSR)

Relative TSR is one of the most common performance measures used by ASX listed companies and has been selected on the basis it is the most appropriate measure of the total returns to shareholders over the performance period. The performance of the Company will be assessed against a peer group of ASX consumer discretionary companies that are considered to be appropriate comparators.

The peer group for the ELTIP is tabled below. Under the plan rules governing the ELTIP the Board has the discretion to amend the peer group to take into account changes in the circumstances of the constituents, for example removal from the ASX.

The TSR peer group for grants made under the FY2013- FY2015 ELTIP:

Retail comparators		Other consumer discretionary comparators
Australian Pharmaceutical Industries Limited	Metcash Limited	APN News & Media Limited
Harvey Norman Holdings Limited	Premier Investments Limited	Fairfax Media Limited
JB Hi-Fi Limited	Wesfarmers Limited	Seven West Media Limited
Kathmandu Holdings Limited	Woolworths Limited	Southern Cross Media Group Limited
Myer Holdings Limited	Billabong International Limited	Ten Network Holdings Limited
Nick Scali Limited	G.U.D Holdings Limited	Treasury Wine Estates Limited
OrotonGroup Limited	Super Retail Group Limited	Flight Centre Limited
Pacific Brands Limited		Coca-Cola Amatil Limited
The Reject Shop Limited		

Earnings Per Share (EPS)

Following a review of both the STI and LTI arrangements in the Company the RNC determined that a profit based measure, such as PAT, should be used to assess performance over the short term, with the LTI plan containing measures that also consider the allocation of capital. As a result, PAT has been retained for the FY2013 STI plan only.

The RNC considers that EPS is a more appropriate performance measure than PAT for the Chief Executive Officer and Managing Director and members of the Executive Committee as they have an influence over both the long term growth in earnings and capital management.

The EPS growth targets have been chosen after completing market analysis, considering the current retail environment and delivering appropriate reward outcomes for stretch performance.

For the purposes of the FY2013 - FY2015 ELTIP EPS means basic Earnings Per Share as defined in accounting standards which may be adjusted by the Board in its discretion.

7. REMUNERATION DISCLOSURES RELATING TO EXECUTIVES

7.1 Summary of contract terms

The following table summarises the termination provisions of employment contracts for executives:

	Termination by the Company	Termination by an executive
Paul Zahra (Chief Executive Officer and Managing Director) (Rolling contract from previous senior executive role continues to apply)	If termination without cause, 12 months' notice is required. Fixed Remuneration would be paid for 12 months (reflecting notice provisions). STI and LTI: based on performance, entitled to pro-rata payment for vesting scheduled to occur within notice period.	The Chief Executive Officer and Managing Director can terminate by giving 6 months' written notice unless employment is to be resumed with specified competitors, in which case 12 months' notice is required, or if termination is to work or travel overseas, in which case 3 months' notice is required Entitled to Fixed Remuneration up to termination date. STI and LTI: entitled to STI and LTI Plan incentives that have accrued to date of resignation.
Executives (including Chief Financial Officer) Rolling contracts	The Company can terminate executives by giving 6 months' notice in writing and electing to pay out any notice period not worked.	Executives can terminate their appointment by giving 6 months' written notice unless employment is to be resumed with specified competitors, in which case 12 months' notice is required.

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

Stephen Goddard retires from his position as Executive Director on 31 October 2012. Under the terms of his contract Stephen Goddard is prevented from resuming employment with specified competitors for a period of 12 months from his retirement date. Any payments made to Stephen Goddard relating to his retirement will be statutory only.

The Board is satisfied that the termination arrangements of all executives are reasonable, having regard to Australian employment practices and after seeking and considering independent advice where appropriate.

7.2 Remuneration tables

The following table provides the remuneration of the executive prepared in accordance with applicable accounting standards:

REMUNERATION OF EXECUTIVES FOR THE YEAR ENDED 28 JULY 2012

	Short-Term Employee Benefits				Post-Employment Benefits	Other Long-Term Benefits	Share based payment		Total Compensation	Percentage of remuneration in LTI Plan Rights	Percentage of remuneration Performance related
	Cash Salary	Cash Bonus (STI) ¹	Non Monetary Benefits ²	Other ³	Super	Long Service Leave	Termination Benefits ⁴	LTI Plan Rights ⁵			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Executive Directors											
P Zahra	1,215,807	-	13,735	750	22,204	38,076		368,486	1,659,058	22%	22%
S Goddard	956,761	-	14,735	1,050	52,082	24,026		315,137	1,363,791	23%	23%
Executives											
A Karp	687,374	100,000	12,846	1,050	22,205	20,542		(61,905)	782,112	-	5%
C Daniels	512,689	-	9,315	851	24,903	9,787		471,061	1,028,606	46%	46%
D Robinson	386,966	96,000	997	360	23,481	10,727		122,430	640,961	19%	34%
M Durbin	405,766	45,283	1,953	390	23,908	9,572		269,122	755,994	36%	42%
P Bauchinger	383,395	-	-	750	18,029	11,267		(21,332)	392,109	-	-
S Laing	430,235	-	11,741	600	24,240	12,590		273,640	753,046	36%	36%
Appointments											
B Soller ⁶	280,785	-	-	118	5,316	335		-	286,554	-	-
D Player ⁷	57,066	-	-	50	1,373	63		-	58,552	-	-
Terminations											
B Riddington ⁸	335,912	-	-	598	14,859	23,188	428,332	228,678	1,031,567	22%	22%
K McLachlan ⁹	453,257	-	6,744	850	13,146	13,260	35,820	(231,275)	291,802	-	-
P Robinson ¹⁰	421,461	-	9,685	582	45,077	30,023	718,602	(49,707)	1,175,723	-	-
TOTAL	6,527,474	241,283	81,751	7,999	290,823	203,456	1,182,754	1,684,335	10,219,875		

Notes to the table:

¹ In accordance with the Terms of the FY2009 - FY2012 Retention Plan no Cash Equivalent of Dividends were paid to executives during FY2012.

² Non-monetary benefits relates to non-cash benefits received by an executive such as car parking.

³ Other benefits represents to the insurance premium paid by the Company for salary continuance insurance.

⁴ Termination Benefits relates to payments upon termination of employment including statutory entitlements and other payments. For Brett Riddington and Patrick Robinson the amount includes any severance payments made as a result of their positions being made redundant.

⁵ LTI Plan rights represents the fair value of the rights at grant determined in accordance with AASB2 Accounting for Share Based Payments.

⁶ Remuneration for B Soller is for the period 2 April 2012 to 28 July 2012.

⁷ Remuneration for D Player is for the period 4 July 2012 to 28 July 2012.

⁸ Remuneration for B Riddington is from 31 July 2011 to 9 May 2012. The termination payment of \$428,332 made to B Riddington related to redundancy and was represented by six months notice in lieu and a severance payment. This amount was less than the 12 month average annual base salary calculated in accordance with the termination provisions contained within the Corporations Act (Cth) and therefore does not require shareholder approval.

⁹ Remuneration for K McLachlan is from 31 July 2011 to 24 May 2012.

¹⁰ Remuneration for P Robinson is from 31 July 2011 to 9 May 2012. Under the terms of his contract a payment of 12 months notice in lieu was paid to P Robinson as a result of redundancy. The termination payment of \$718,602 made to P Robinson was less than the 12 month average annual base salary calculated in accordance with the termination provisions contained in the Corporations Act (Cth) and therefore does not require shareholder approval. In addition, P Robinson had a contract that pre-dated the changes to the Corporations Act (Cth).

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

REMUNERATION OF EXECUTIVES FOR THE YEAR ENDED 30 JULY 2011

	Cash Salary ¹	Short-Term Employee Benefits				Post-Employment Benefits Super	Other Long-Term Benefits Long Service Leave Accrual	Termination Benefits	Share-Based Payment LTI Plan Rights ^{3,4}	Total Compensation	Percentage of remuneration in LTI Plan Rights	Percentage of remuneration Performance related
		Cash Equivalent of Dividends ²	Cash Bonus (STI)	Non Monetary Benefits	Other							
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%	
Executive Directors												
P Zahra ⁵	1,347,248	88,571	-	13,055	900	21,570	88,921	-	1,041,619	2,601,884	40%	40%
S Goddard	950,138	460,285	-	14,055	1,220	51,328	20,815	-	999,786	2,497,627	40%	40%
Executives												
A Karp	708,702	88,571	-	13,091	1,220	21,619	15,669	-	401,162	1,250,034	32%	32%
B Riddington	207,711	7,428	-	1,528	335	8,750	4,287	-	212,878	442,917	48%	48%
C Daniels	437,608	8,857	-	11,227	717	24,367	7,811	-	547,239	1,037,826	53%	53%
K McLachlan	569,866	70,857	-	11,749	1,172	15,247	10,518	-	320,930	1,000,339	32%	32%
M Durbin	226,813	8,357	-	-	209	11,685	28,490	-	255,092	530,646	48%	48%
P Robinson	663,659	88,571	-	9,227	3,891	21,618	15,758	-	401,162	1,203,886	33%	33%
P Bauchinger	401,474	30,114	-	997	900	17,443	9,494	-	136,395	596,817	23%	23%
S Laing	231,615	8,357	-	5,406	693	12,548	24,894	-	281,875	565,388	50%	50%
C Gamsey	753,978	-	-	4,997	398	34,583	31,499	-	(801,345)	24,110	-	-
D Eales	307,188	-	-	1,000	497	7,600	(82,789)	-	(801,345)	(567,849)	-	-
TOTAL	6,806,000	859,968	-	86,332	12,152	248,358	175,367	-	2,995,448	11,183,625		

Notes to the table:

¹ The movement in Cash Salary for those executives who were reported as KMP in the FY2010 annual report reflects increases received in the annual salary review process.

² Under the terms of the FY2009-2011 and FY2009- FY2012 retention plans executives receive the cash equivalent of dividends (CED) on rights that have vested based on company performance but have not yet converted to shares. FY2011 was the final year of entitlement to any CED payment.

³ LTI Plan rights' represents the fair value of the rights at the date of grant determined in accordance with AASB2 Accounting for Share Based Payments.

⁴ Colette Gamsey and Damian Eales forfeited rights under the FY2009 - FY2012 Retention plan upon termination of employment. Any share based payments expensed previously recognised under AASB 2 – Share Based Payment in respect of the forfeited rights has been reversed.

⁵ FY2011 cash salary for P Zahra includes \$54,257 that was paid during FY2011 but related to FY2010. This cash salary was from the period from his appointment as Chief Executive Officer and Managing Director on 18 June 2010 to 31 July 2010. P Zahra's FY2011 cash salary excluding this amount was \$1,292,991.

8. REMUNERATION OF NON-EXECUTIVE DIRECTORS

8.1 Remuneration philosophy and objectives

The Company's remuneration policy is designed to attract and retain appropriately skilled and experienced Non-executive Directors best able to protect the rights and interests of shareholders and uphold accountability to shareholders for the Company's performance. The remuneration of Non-executive Directors is not linked in any way to the performance of the Company thus ensuring Director independence and impartiality is maintained.

8.2 Remuneration structure

Non-executive Directors' fees are recommended by the RNC and determined by the Board having regard to the following:

- the Company's existing remuneration policies;
- independent remuneration advice;
- fees paid by comparable companies;
- the level of fees required to attract and retain experienced and high calibre Non-executive Directors; and
- both the responsibilities of, and time commitments required from, each Director to carry out their duties.

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

Remuneration and benefits specialists with experience in Board remuneration, recommend fee levels, which are considered in detail by the Remuneration and Nominations Committee. Recommended fee levels are based on survey data of comparable companies and analysis of fee structures for Non-executive Directors in a cross section of companies, including retail. Non-executive Directors cannot participate in either the STI or LTI Plan.

In accordance with a resolution of shareholders at the 28 November 2008 Annual General Meeting, the maximum aggregate amount to be paid to Non-executive Directors is an aggregate of \$2,300,000.

In recognition of the economic and trading environment in FY2012 the fees for Non-executive Directors were maintained at FY2011 levels, that is, they were not increased.

The Non-executive Directors base fees for FY2012 are as follows:

Year	Board			Audit Committee		Remuneration & Nominations Committee		Property Committee	
	Chairman (\$)	Deputy Chairman (\$)	Member (\$)	Chairman (\$)	Member (\$)	Chairman (\$)	Member (\$)	Chairman (\$)	Member (\$)
2012 Fees	482,100	279,600	181,300	45,300	24,900	30,200	19,900	45,300	25,100
2011 Fees	482,100	279,600	181,300	45,300	24,900	30,200	19,900	45,300	25,100

For the actual fees received in the reporting period refer to the following section on statutory disclosures relating to Non-executive Directors remuneration.

8.3 Retirement benefits

Retirement benefits for Non-executive Directors are closed to participation for Directors appointed after 14 October 2003. Contributions to the retirement benefit plan for Non-executive Directors (other than notional interest adjustments based on the retirement allowance balance) were discontinued from October 2004. Any amounts that had been previously accrued were crystallised to be held until such time as the Director retires from the Board. As noted earlier in the report, a number of Non-executive Directors retired during the year. Details of the accrued retirement allowance balances and the amount withdrawn upon retirement are as follows:

Non-executive Director	Balance at 31 July 2011 (\$)	Interest earned in FY2012 (\$)	Withdrawals in the year (\$)	Balance at 28 July 2012 (\$)
R Savage AM	312,183	18,417	-	330,600
J Coates AC	371,576	17,053	(388,629)	-
R Clairs AO	191,705	6,801	(198,506)	-
J Harvey	128,144	7,559	-	135,703
K Lahey	328,702	17,694	(346,396)	-

8.4 Deferred Employee Share Plan (DESP)

The Non-executive Directors were entitled to participate in the DESP which was approved at the Annual General Meeting held on 23 November 1998. This plan was suspended on 4 June 2009 as a result of the changes made to the Employee Share Scheme taxation rules as a result of the 2009 Federal Budget.

The plan enabled Non-executive Directors to acquire up to \$3,000 worth of shares per annum by way of salary sacrifice. The Chairman remains a member of the plan based on contributions made from fees prior to the plans suspension.

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

9. REMUNERATION DISCLOSURES FOR NON-EXECUTIVE DIRECTORS

Details of the remuneration of the Non-executive Directors for the financial year ended 28 July 2012 and the previous financial year are set out in the following tables:

REMUNERATION OF NON-EXECUTIVE DIRECTORS FOR THE YEAR ENDED 28 JULY 2012

	Short-Term Employee Benefits		Post-Employment Benefits		Total Compensation
	Fees	Non Monetary Benefits	Super	Other Retirement Benefits ¹	
	\$	\$	\$	\$	
R Savage AM ²	473,992	12,735	33,208	18,417	538,352
P Mason AM ³	190,367	-	15,833	-	206,200
J Harvey	210,767	-	15,833	7,559	234,159
P Stone	216,467	-	15,833	-	232,300
Appointments					
S Vamos ⁴	30,168	-	2,665	-	32,833
Retirements					
J Coates AC ⁵	235,411	-	12,152	17,053	264,616
R Clairs AO ⁶	114,173	-	9,202	6,801	130,176
K Lahey ⁷	166,644	-	14,237	17,694	198,575
TOTAL	1,637,989	12,735	118,963	67,524	1,837,211

¹ Other retirement benefits represents an adjustment equivalent to deposit interest paid by trading banks on previously frozen Directors' retirement allowance.

² Robert Savage has forgone his entitlement to fees resulting from membership of the Remunerations and Nominations Committee.

³ Peter Mason has forgone his entitlement to an increase in Board fees following his appointment to Deputy Chairman on 15 June 2012.

⁴ Remuneration for Steve Vamos is from his appointment date of 5 June 2012 to 28 July 2012.

⁵ Remuneration for John Coates is from 31 July 2011 to his resignation on 3 May 2012.

⁶ Remuneration for Reginald Clairs is from 31 July 2011 to his resignation on 29 February 2012.

⁷ Remuneration for Katie Lahey is from 31 July 2011 to her resignation on 25 June 2012.

REMUNERATION OF NON-EXECUTIVE DIRECTORS FOR THE YEAR ENDED 30 JULY 2011

	Short-Term Employee Benefits			Post-Employment Benefits		Total Compensation
	Fees	Non Monetary Benefits	Other	Super	Other Retirement Benefits ¹	
	\$	\$	\$	\$	\$	
R Savage AM	470,586	13,055	100	27,047	18,390	529,178
J Coates AC	303,520	-	100	15,247	21,889	340,756
R Clairs AO	192,253	-	100	15,247	11,293	218,893
J Harvey	207,053	-	100	15,247	7,549	229,949
K Lahey	182,153	-	100	15,247	19,363	216,863
P Mason AM	187,120	-	100	15,247	-	202,467
P Stone	212,353	-	-	15,247	-	227,600
TOTAL	1,755,038	13,055	600	118,529	78,484	1,965,706

¹ Other retirement benefits represents an adjustment equivalent to deposit interest paid on previously frozen Directors' retirement allowance.

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

APPENDIX ONE – EQUITY HOLDINGS OF KMP

The following tables show the movements in LTI Plan rights holdings of KMP for FY2012.

The rights vested during the year are represented as a reduction in the total number of rights held as these have been converted into Ordinary shares in the company during FY2012.

Non-executive Directors are not entitled to participate in any LTI Plan and therefore no holdings are disclosed.

Name	LTI Plan	Holding at 30 July 2011 Number	Granted as Remuneration ¹ Number	Vested and converted during the Year Number	Forfeited/ Lapsed during the Year ² Number	Holding at 28 July 2012 ³ Number	Fair Value of Right (TSR) ⁴ \$	Fair Value of Right (NPAT) ⁴ \$
Directors								
Paul Zahra								
	09-12 retention offer							
	- Tranche 2	200,000	-	(200,000)	-	-	1.64	2.74
	- Tranche 3	170,000	-	(170,000)	-	-	1.65	2.74
	- Tranche 4	400,000	-	-	(278,000)	122,000	1.57	2.51
	09-12 Additional offer							
	- Tranche 3	212,500	-	-	-	212,500	3.64	3.95
	- Tranche 4	250,000	-	-	(173,750)	76,250	3.45	3.95
<i>Value vested/lapsed⁵</i>				\$1,113,700	(\$1,084,200)			
Stephen Goddard								
	09-11 retention offer							
	- Tranche 1	519,677	-	(519,677)	-	-	1.63	1.82
	- Tranche 2	519,677	-	(519,677)	-	-	1.59	1.82
	- Tranche 3	588,968	-	(588,968)	-	-	1.61	1.82
	09-12 retention offer							
	- Tranche 4	250,000	-	-	(173,750)	76,250	3.45	3.95
<i>Value vested/lapsed⁵</i>				\$4,901,250	(\$417,000)			
Executives								
Antony Karp								
	09-12 retention offer							
	- Tranche 2	200,000	-	(200,000)	-	-	1.64	2.74
	- Tranche 3	170,000	-	(170,000)	-	-	1.65	2.74
	- Tranche 4	400,000	-	-	(278,000)	122,000	1.57	2.51
<i>Value vested/lapsed⁵</i>				\$1,113,700	(\$667,200)			
Patrick Robinson								
	09-12 retention offer							
	- Tranche 2	200,000	-	(200,000)	-	-	1.64	2.74
	- Tranche 3	170,000	-	(170,000)	-	-	1.65	2.74
	- Tranche 4	400,000	-	-	(278,000)	122,000	1.57	2.51
<i>Value vested/lapsed⁵</i>				\$1,113,700	(\$667,200)			
Karen McLachlan								
	09-12 retention offer							
	- Tranche 2	160,000	-	(160,000)	-	-	1.64	2.74
	- Tranche 3	136,000	-	(136,000)	-	-	1.65	2.74
	- Tranche 4	320,000	-	-	(320,000)	-	1.57	2.51
<i>Value vested/lapsed⁵</i>				\$890,960	(\$704,000)			
Paula Bauchinger								
	09-12 retention offer							
	- Tranche 2	68,000	-	(68,000)	-	-	1.64	2.74
	- Tranche 3	57,800	-	(57,800)	-	-	1.65	2.74
	- Tranche 4	136,000	-	-	(94,520)	41,480	1.57	2.51
<i>Value vested/lapsed⁵</i>				\$378,658	(\$226,848)			

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

APPENDIX ONE – EQUITY HOLDINGS OF KMP

Name	LTI Plan	Holding at 30 July 2011 Number	Granted as Remuneration ¹ Number	Vested and converted during the Year Number	Forfeited/Lapsed during the Year ² Number	Holding at 28 July 2012 ³ Number	Fair Value of Right (TSR) ⁴ \$	Fair Value of Right (NPAT) ⁴ \$
Cate Daniels								
	09-12 retention offer							
	- Tranche 2	20,000	-	(20,000)	-	-	1.64	2.74
	- Tranche 3	14,000	-	(14,000)	-	-	1.65	2.74
	- Tranche 4	40,000	-	-	(40,000)	-	1.57	2.51
	09-12 additional offer							
	- Tranche 3	170,000	-	-	-	170,000	4.03	4.35
	- Tranche 4	200,000	-	-	(139,000)	61,000	3.88	4.35
<i>Value vested/lapsed⁵</i>				\$102,340	(\$429,600)			
Matthew Durbin								
	09-12 retention offer							
	- Tranche 2	45,000	-	(45,000)	-	-	1.64	2.74
	- Tranche 3	38,250	-	(38,250)	-	-	1.65	2.74
	- Tranche 4	90,000	-	-	(62,550)	27,450	1.57	2.51
	09-12 additional offer							
	- Tranche 3	95,625	-	-	-	95,625	4.03	4.35
	- Tranche 4	112,500	-	-	(78,188)	34,312	3.88	4.35
<i>Value vested/lapsed⁵</i>				\$250,583	(\$337,771)			
David Robinson								
	09-11 retention offer							
	- Tranche 1	45,000	-	(45,000)	-	-	-	4.03
	- Tranche 2	14,783	-	(14,783)	-	-	-	4.03
	- Tranche 3	24,098	-	(24,098)	-	-	-	4.03
	09-12 additional offer							
	- Tranche 4	100,000	-	-	(69,500)	30,500	3.16	3.75
<i>Value vested/lapsed⁵</i>				\$252,482	(\$166,800)			
Sacha Laing								
	09-12 retention offer							
	- Tranche 2	45,000	-	(45,000)	-	-	1.64	2.74
	- Tranche 3	31,500	-	(31,500)	-	-	1.65	2.74
	- Tranche 4	90,000	-	-	(90,000)	-	1.57	2.51
	09-12 additional offer							
	- Tranche 3	116,875	-	-	-	116,875	4.03	4.35
	- Tranche 4	137,500	-	-	(95,562)	41,938	3.88	4.35
<i>Value vested/lapsed⁵</i>				\$230,265	(\$445,349)			
Brett Riddington								
	09-12 retention offer							
	- Tranche 2	40,000	-	(40,000)	-	-	1.64	2.74
	- Tranche 3	28,000	-	(28,000)	-	-	1.65	2.74
	- Tranche 4	80,000	-	-	(80,000)	-	1.57	2.51
	09-12 additional offer							
	- Tranche 3	85,000	-	-	-	85,000	4.03	4.35
	- Tranche 4	100,000	-	-	(69,500)	30,500	3.88	4.35
<i>Value vested/lapsed⁵</i>				\$204,680	(\$358,800)			

¹ The number of rights granted to each participant in the LTI Plan may not convert to an equivalent number of ordinary shares due to specified financial performance and employment conditions not being satisfied.

² During the 52 weeks ended 28 July 2012, rights were forfeited due to employment or financial performance conditions not being satisfied.

³ Rights held at 28 July 2012 vested and converted to shares on 19 September 2012.

⁴ The fair value of rights was calculated in accordance with AASB2 Accounting for Share Based Payment which requires that the rights are valued at the date of grant. The different values in the table are a result of the varying grant dates of the rights. The FY2009 – FY2012 retention offer was granted on 24 July 2008 with the FY2009 – FY 2012 additional offer granted on 24 November 2010 to the executives and on 3 December 2010 to the Chief Executive Officer and Managing Director.

⁵ The value of rights that have vested during the year was calculated using the weighted average share price at the date of vesting. With the exception of K McLachlan, the value of those rights that forfeited/lapsed during the year was calculated using the closing share price as at 28 July 2012. For K McLachlan the closing share price on the date of termination of employment was used.

DIRECTORS' REPORT: REMUNERATION REPORT (AUDITED) continued

APPENDIX TWO – GLOSSARY OF KEY TERMS

Buying Gross Profit	Profit measure used to assess the performance of the merchandise function taking into account sales less the costs of goods sold.
Cash Equivalent of Dividends (CED)	Payment of a cash amount to a holder of rights that have met the Company performance conditions where shares have not been allocated as the service condition has not been met. The amount is equivalent to the dividend that would have been paid had Ordinary shares been allocated to the participant.
Executive or executives	For the purposes of this report, executive refers to members of the Company's Executive Committee who are considered to be Key Management Personnel.
Executive Long Term Incentive Plan (ELTIP)	The Long Term Incentive Plan being implemented in FY2013 that will have a three year performance period covering FY2013 - FY2015.
Executive Retention Plan (ERP)	The FY2009 - FY2012 Executive Retention Plan implemented in 2008. FY2012 was the final year of this plan.
Earnings Per Share (EPS)	Earnings Per Share which has been selected as one of the two performance measures for the FY2013 - FY2015 Executive LTI Plan.
Fixed Remuneration (FR)	Annual remuneration paid on a monthly basis without performance conditions. Includes superannuation and other benefits that employees are allowed to package (for example cars and car parking).
Financial Services Earnings Before Tax (FS EBT)	A measure of the financial performance of the Financial Services business.
Hurdle	Level of financial performance for FY2012 that must be met before an STI is payable.
Key Management Personnel (KMP)	Defined as those persons having the authority and responsibility for planning, directing and controlling the activities of David Jones, directly or indirectly. KMP includes Non executive Directors, Executive Directors and other executives of the Company.
Long Term Incentive (LTI)	An equity based incentive scheme with vesting based on the achievement of specific Company performance measures assessed over the longer-term.
PAT / NPAT	Profit After Tax.
PricewaterhouseCoopers (PwC)	PricewaterhouseCoopers is a professional services firm who were engaged by the RNC to provide independent remuneration advice during the reporting period.
Remuneration Mix	Ratio of Fixed Remuneration: STI : LTI which illustrates the relative amount of Total Remuneration that is comprised of fixed versus 'at risk', or variable, pay.
Remuneration and Nominations Committee (RNC)	Remuneration and Nominations Committee are a sub-committee of the Board responsible for making recommendations to the Board regarding executive and Non-executive remuneration arrangements.
Short Term Incentive (STI)	Annual incentive plan based on the achievement of Company, Group and Individual performance measures assessed at the end of the financial year.
Store Net Profit (SNP)	A measure of operating net profit for the Stores Operations business unit taking into account costs such as salaries and other operating expenses.
Total Remuneration (TR)	Collectively the various elements of an employees remuneration including Fixed Remuneration, Short-term Incentives and Long-term Incentives.
Total Shareholder Return (TSR)	Total Shareholder Returns a measure of the relative performance of David Jones compared to a peer group of other ASX listed companies.
Vesting	Conversion of rights to ordinary shares in the Company upon satisfaction of the performance conditions such as Company performance or service/employment based conditions.

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 28 July 2012 and 30 July 2011

	Note	2012 \$000	2011 \$000
Revenue from sale of goods		1,867,817	1,961,744
Cost of sales		(1,167,987)	(1,194,474)
Gross profit		699,830	767,270
Other income	2	57,568	55,526
Employee benefits expenses		(282,593)	(282,403)
Lease and occupancy expenses		(189,114)	(178,184)
Depreciation and amortisation expenses	3	(51,949)	(45,876)
Advertising, marketing and visual merchandising expenses		(39,036)	(32,820)
Administration expenses		(26,909)	(20,800)
Other expenses		(13,384)	(16,003)
Finance costs	3	(10,938)	(7,789)
Finance income	3	347	401
Profit before income tax expense		143,822	239,322
Income tax expense	5	(42,719)	(71,183)
Profit after income tax expense attributable to equity holders of the parent entity	23	101,103	168,139
Other comprehensive income:			
Gains on cash flow hedges		1,713	1,429
Transfer of realised gains on hedges to profit and loss		(1,621)	(928)
Income tax on items of other comprehensive income		(28)	(150)
Total other comprehensive income for the period, net of tax		64	351
Total comprehensive income attributable to equity holders of the parent entity for the period		101,167	168,490
Earnings per share for profit attributable to the equity holders of the parent entity:			
Basic earnings per share (cents per share)	7	19.4	33.0
Diluted earnings per share (cents per share)	7	19.4	32.4

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes to the Financial Statements.

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 28 July 2012 and 30 July 2011

	Note	2012 \$000	2011 \$000
CURRENT ASSETS			
Cash and cash equivalents	8	20,536	11,703
Receivables	9	16,389	19,637
Inventories	10	279,099	288,850
Financial assets	11	24	–
Other assets	12	7,201	6,911
Total current assets		323,249	327,101
NON-CURRENT ASSETS			
Financial assets	11	12	12
Property, plant and equipment	13	817,432	798,416
Intangible assets	14	43,977	34,422
Deferred tax assets	15	55,833	54,410
Other assets	12	394	189
Total non-current assets		917,648	887,449
Total assets		1,240,897	1,214,550
CURRENT LIABILITIES			
Payables	16	264,595	216,429
Interest bearing liabilities	17	11,006	2,943
Current tax liabilities		3,097	18,654
Provisions	18	25,955	26,418
Financial liabilities	19	1,357	1,409
Other liabilities	20	288	280
Total current liabilities		306,298	266,133
NON-CURRENT LIABILITIES			
Interest bearing liabilities	17	125,000	129,000
Provisions	18	6,183	6,492
Other liabilities	20	27,712	27,445
Total non-current liabilities		158,895	162,937
Total liabilities		465,193	429,070
Net assets		775,704	785,480
EQUITY			
Contributed equity	21	547,028	525,105
Reserves	22	74,362	74,647
Retained earnings	23	154,314	185,728
Total equity		775,704	785,480

The above Statement of Financial Position should be read in conjunction with the accompanying notes to the Financial Statements.

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 28 July 2012 and 30 July 2011

For the 52 weeks ended 28 July 2012:	Note	Share Capital \$000	Cash Flow Hedge Reserve \$000	Share Based Payments Reserve \$000	Retained Earnings \$000	Total \$000
Balance as at 31 July 2011		525,105	(986)	75,633	185,728	785,480
Profit for the period		–	–	–	101,103	101,103
Other comprehensive income, net of tax		–	64	–	–	64
Total comprehensive income for the period		–	64	–	101,103	101,167
Transactions with owners, recorded directly in equity:						
Dividends paid	6	–	–	–	(132,517)	(132,517)
Issue of ordinary shares through Dividend Reinvestment Plan		21,923	–	–	–	21,923
Share based payments		–	–	(625)	–	(625)
Income tax		–	–	276	–	276
Total contributions by and distributions to owners		21,923	–	(349)	(132,517)	(110,943)
Balance as at 28 July 2012		547,028	(922)	75,284	154,314	775,704
Transactions with owners, recorded directly in equity:						
Dividends paid	6	–	–	–	(157,716)	(157,716)
Issue of ordinary shares through Dividend Reinvestment Plan		27,512	–	–	–	27,512
Share based payments		–	–	5,846	–	5,846
On-market purchase of shares by Trust		(4,743)	–	–	–	(4,743)
Employee share purchase plan		137	–	–	–	137
Income tax		–	–	1,716	–	1,716
Total contributions by and distributions to owners		22,906	–	7,562	(157,716)	(127,248)
Balance as at 30 July 2011		525,105	(986)	75,633	185,728	785,480

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes to the Financial Statements.

CONSOLIDATED CASH FLOW STATEMENT

For the 52 weeks ended 28 July 2012 and 30 July 2011

	Note	2012 \$000	2011 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		2,058,903	2,168,821
Payments to suppliers and employees (inclusive of GST)		(1,846,677)	(1,967,589)
Commissions received		54,498	48,201
Interest received		347	401
Borrowing costs paid		(10,884)	(7,548)
Income tax paid		(59,450)	(59,848)
Net cash flows from operating activities	24	196,737	182,438
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(70,009)	(80,941)
Payments for software		(11,475)	(576)
Net proceeds from sale of property		111	–
Net cash flows used in investing activities		(81,373)	(81,517)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on ordinary shares	6	(110,594)	(130,204)
Net proceeds from borrowings		7,000	28,000
On-market purchase of shares for Trust		–	(4,743)
Proceeds from loan repayments under employee share plan		–	137
Net cash flows used in financing activities		(103,594)	(106,810)
Net increase/(decrease) in cash and cash equivalents		11,770	(5,889)
Cash and cash equivalents at beginning of the financial year		8,760	14,649
Cash and cash equivalents at end of the financial year	(i)	20,530	8,760
Notes:			
(i) Reconciliation to the Statement of Financial Position			
Cash and cash equivalents is comprised of the following:			
Cash and cash equivalents	8	20,536	11,703
Bank overdraft	17	(6)	(2,943)
Cash and cash equivalents at end of the financial year		20,530	8,760

The above Cash Flow Statement should be read in conjunction with the accompanying notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

David Jones Limited (Company) is a public company incorporated, domiciled and operating in Australia and is listed on the Australia Securities Exchange (ASX) (trading under the symbol DJS). The consolidated Financial Statements for the 52 weeks ended 28 July 2012 comprise the Company and its subsidiaries (together referred to as the Consolidated Entity). Unless otherwise stipulated, all notes relate to the Consolidated Entity.

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NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.1 Basis of preparation

The Financial Statements have been prepared on an historical cost basis except for derivative financial instruments which are stated at fair value.

The Company is of a kind referred to in ASIC Class order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005) and in accordance with that Class Order, amounts in the Financial Statements and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

The preparation of financial statements in conformity with the Australian Accounting Standards Board requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. 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 about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next annual reporting period include:

- Income taxes: Significant judgement is required in determining the provision for income taxes. There are transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination may be uncertain.
- Impairment of goodwill and other assets: As disclosed in Note 1.16, the Consolidated Entity tests whether goodwill has suffered any impairment at each period end. When impairment indicators are identified, tests for impairment losses are also performed in relation to other assets. The recoverable amounts of cash-generating units have been determined based on a value in use calculation. As disclosed in Note 14, these calculations use certain assumptions and are based on cash flow projections.
- Inventory valuation: As disclosed in Note 1.17, inventory is stated at the lower of cost and net realisable value at period end. Cost is determined using the retail inventory method and estimated average department mark-up ratios.
- Provisions: As disclosed in Notes 1.22 and 18, certain estimates are used in the calculation of provisions.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates 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 accounting policies have been consistently applied by each entity within the Consolidated Entity for all periods reported in the Financial Statements.

1.2 Statement of compliance

These General Purpose Financial Statements have been prepared in accordance with the Corporations Act 2001 and comply with Australian Accounting Standards as issued by the Australian Accounting Standards Board, and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

1.3 Business Combinations

The purchase method of accounting is used to account for all business combinations. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed. The excess of the cost of acquisition over the fair value of the Consolidated Entity's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Consolidated Entity's share of fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the Statement of Comprehensive Income, but only after a reassessment of the identification and measurement of the net assets acquired.

1.4 Segment Reporting

An operating segment is a distinguishable component of the Consolidated Entity that is engaged in providing products or services that are subject to risks and rewards that are different from those of other segments. The Consolidated Entity has defined its chief operating decision maker as its Chief Executive Officer and Managing Director. A reportable operating segment is defined based on information used regularly by the chief operating decision maker. The Consolidated Entity's operating segments and relevant disclosures are outlined in Note 4.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**1.5 New accounting standards and interpretations**

The following standards and amendments have been adopted by the Consolidated Entity. These standards have had either minimal or no impact on these Financial Statements.

Reference	Title	Summary	Application date of standard	Impact on Consolidated Entity's Financial Statements	Application date for Consolidated Entity for Financial year ending:
AASB 124 (Revised)	Related Party Disclosures	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition	1 January 2011	No material impact identified	28 July 2012
AASB 2009-12	Amendments to Australian Accounting Standards	Further amendments to the following Standards: AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 and 1031 and Interpretations 2, 4, 16, 1039 and 1052	1 January 2011	No material impact identified	28 July 2012
AASB 2010-4	Amendments to Australian Accounting Standards	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project: AASB 1, 7, 101, 134 and Interpretation 13	1 January 2011	No material impact identified	28 July 2012
AASB 2010-5	Amendments to Australian Accounting Standards	AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 and 1038 and Interpretations 112, 115, 127, 132 and 1042	1 January 2011	No material impact identified	28 July 2012
AASB 2010-6	Amendments to Australian Accounting Standards	Disclosures on Transfers of Financial Assets AASB 1 and AASB 7	1 July 2011	No material impact identified	28 July 2012

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**1.5 New accounting standards and interpretations (continued)**

The following standards and amendments applicable to the Consolidated Entity were issued but not yet effective and they have not been applied by the Consolidated Entity in these Financial Statements.

Reference	Title	Summary	Application date of standard	Impact on Consolidated Entity's Financial Statements	Application date for Consolidated Entity for Financial year ending:
Annual Improvements 2009–2011 Cycle	Annual Improvements to IFRSs 2009–2011 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB.	1 January 2013	No material impact identified	26 July 2014
AASB 2010-8	Amendments to Australian Accounting Standards	Deferred Tax: Recovery of Underlying Assets AASB 112	1 January 2012	No impact identified	27 July 2013
AASB 10	Consolidated Financial Statements	IFRS 10 establishes a new control model that applies to all entities	1 January 2013	No impact identified	26 July 2014
AASB 11	Joint Arrangements	IFRS 11 uses the principle of control in IFRS 10 to define joint control, and therefore the determination of whether joint control exists or may change.	1 January 2013	No impact identified	26 July 2014
AASB 12	Disclosure of interests in other entities	IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities.	1 January 2013	No impact identified	26 July 2014
AASB 13	Fair value measurement	IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities.	1 January 2013	No impact identified	26 July 2014
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, and 1038 and Interpretations 2, 5, 10, 12, 19 and 127	1 January 2013	No material impact identified	26 July 2014
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Items in Other Comprehensive Income	The main requirement of this Standard is to group items included in Other Comprehensive Income on the basis of whether they are potentially reclassifiable to profit or loss subsequently.	1 July 2012	No material impact identified	27 July 2013
AASB 119	Employee benefits	The amended AASB 119 eliminates the option to defer gains/losses under the corridor method when accounting for Defined Benefit Plans and requires remeasurement to be presented in Other Comprehensive Income.	1 January 2013	No impact identified	26 July 2014
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39.	1 January 2015	No material impact identified	30 July 2016

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.6 Basis of consolidation

1.6.1 Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated Financial Statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's Financial Statements.

For the purpose of consolidation, the assets and liabilities of the David Jones Incentive Plan Trust (Trust) have been treated as assets and liabilities of the Company.

1.6.2 Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated Financial Statements.

1.7 Revenue

Revenue is recognised in the Statement of Comprehensive Income to the extent that it is probable that the economic benefits will flow to the Consolidated Entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

1.7.1 Sale of goods

Revenue from sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Risks and rewards are considered as being passed to the buyer at the earlier of delivery of the goods or the transfer of legal title to the customer. Revenue from the sale of goods is recognised net of returns. Revenue from the sale of goods includes non-agency sales made under Retail Brand Agreements, and commission earned on agency sales.

Revenue from David Jones gift cards is recognised when the card's balance is partially or fully redeemed by the customer when purchasing goods using the card. When a revenue transaction involves the issue of a promotional gift card that may be subsequently redeemed, the future expected cost of settling the obligation is provided for at the time of the revenue transaction.

1.7.2 Commission earned

Revenue from commissions earned is recognised when it is probable that the economic benefits will flow to the Consolidated Entity.

1.7.3 Finance income

Revenue is recognised as interest accrues using the effective interest rate method, which is the rate that discounts estimated future cash receipts through the expected life of the financial instrument.

1.8 Expenses

1.8.1 Operating lease expenses

Payments made under operating leases, where the lease agreement includes predetermined fixed rate increases, are recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease. Other operating lease payments are expensed as incurred.

Lease incentives received are recognised in the Statement of Comprehensive Income as an integral part of the total lease expense and spread over the lease term.

1.8.2 Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method, net unrealised foreign exchange gains and losses, and any ineffective portion of hedging instruments.

1.8.3 Pre-opening expenses

Pre-opening expenses in connection with new stores are charged to the Statement of Comprehensive Income in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.9 Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys the right to use the asset.

Leases of property, plant and equipment where the Consolidated Entity, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations are included in other liabilities.

Operating lease payments are recognised as an operating expense in the Statement of Comprehensive Income on a straight-line basis over the lease term.

1.10 Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand, and short term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1.11 Receivables

Trade and other receivables are stated at amounts to be received in the future and are disclosed net of any provision for doubtful debts.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. An allowance for doubtful debts is made when there is objective evidence that the Consolidated Entity will not be able to collect the debts. Bad debts are written off when identified in the Statement of Comprehensive Income.

1.12 Derivative financial instruments

The Consolidated Entity holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Consolidated Entity designates certain derivatives as either hedges of the fair value of recognised assets or liabilities of a firm commitment (fair value hedges); or hedges of highly probable forecast transactions (cash flow hedges).

The Consolidated Entity documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Consolidated Entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

1.12.1 Fair value hedge

The change in the fair value of a hedging derivative is recognised in the income statement in finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement in finance costs.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through the income statement over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in the income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement.

1.12.2 Cash flow hedge

The effective portion of the changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity as part of the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss, within net financing expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.12 Derivative financial instruments (continued)

1.12.2 Cash flow hedge (continued)

Amounts accumulated in equity are recycled in the profit and loss in the periods when the hedged item will affect profit or loss (for instance when the forecast transaction that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss, within net financing expenses. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss.

1.12.3 Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Statement of Comprehensive Income.

1.13 Other financial assets

The Consolidated Entity classifies its investments in the following categories: financial assets at fair value through the Statement of Comprehensive Income and loans and receivables. The classification depends on the purpose for which the investments were acquired. The classification of investments is determined at the time of initial recognition.

1.13.1 Financial assets at fair value through the Statement of Comprehensive Income

This category has two sub-categories: financial assets held for trading; and those designated at fair value through the Statement of Comprehensive Income on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value.

1.13.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance date, which are classified as non-current assets. Loans and receivables are included in receivables in the Statement of Financial Position.

1.14 Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Australian dollars at the foreign exchange rate ruling at the balance date.

1.15 Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at each balance date. The quoted market price used for financial assets held by the Consolidated Entity is the current bid price. The appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Consolidated Entity uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at each balance date.

The nominal value less estimated impairment adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Consolidated Entity for similar financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.16 Impairment

1.16.1 Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's effective interest rate determined at the time of initial recognition. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in the Statement of Comprehensive Income.

The Consolidated Entity first assesses whether objective evidence of impairment exists for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the Statement of Comprehensive Income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

1.16.2 Other assets

At each reporting date, the Consolidated Entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Consolidated Entity makes a formal estimate of recoverable amount.

Recoverable amount is the higher of fair value less costs to sell, and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income, unless an asset has previously been re-valued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the Statement of Comprehensive Income.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

1.17 Inventories

Finished goods on hand or in transit are stated at the lower of cost and net realisable value with cost primarily being determined by using the retail inventory method. This method utilises the current selling prices of inventories and reduces prices to cost by the application of average department mark up ratios.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Supplier rebates, discounts and subsidies (to the extent they exceed the incremental cost for a specific promotion) are recognised as a reduction in the cost of inventory and are recorded as a reduction in cost of sales when the inventory is sold. Inventories do not include finished goods on hand that are subject to Retail Brand Management agreements as these goods are purchased from the supplier immediately prior to a sales transaction occurring.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.18 Property, plant and equipment

1.18.1 Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

The cost of assets includes the costs of dismantling and removing the items (based on best estimates at the time of acquisition) and restoring the site on which they are located. Changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation, or from changes in the discount rate, are also capitalised.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

1.18.2 Subsequent costs

The Consolidated Entity recognises in the carrying amount of an item of plant and equipment the cost of replacing part of such an item when that cost is incurred, if it is probable that the future economic benefits embodied within the item will flow to the Consolidated Entity and the cost of the item can be measured reliably. All other repairs and maintenance costs are recognised in the Statement of Comprehensive Income as an expense as incurred.

1.18.3 Depreciation

Depreciation is charged to the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of buildings, plant and equipment. The estimated useful lives in the current and comparative year are as follows:

Leasehold improvements	10 - 25 years
Plant and equipment	5 - 25 years
Computer equipment	5 - 8 years
Fixtures and fittings	5 - 13 years
Buildings	75 years

The assets' residual values and useful life are reviewed, and adjusted if appropriate, at each balance date.

1.18.4 Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater 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.

1.19 Intangibles

1.19.1 Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of the Consolidated Entity's share of the net identifiable assets of the acquired subsidiary or business combination (refer Note 1.3) at the date of acquisition. Goodwill is included within intangible assets and is not amortised. Instead, it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For goodwill balances recognised prior to 1 August 2004, the carrying value is net of goodwill amortisation up to 31 July 2004.

1.19.2 Software

Software is amortised on a straight-line basis over the estimated useful life of the asset. It is disclosed within intangible assets and is assessed annually for any indicators of impairment. The useful life of software assets for the current and comparative year was five years.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.20 Trade and other payables

Trade and other payables are recognised when the Consolidated Entity becomes obliged to make future payments resulting from the purchase of goods and services. The amounts, which are stated at cost, are unsecured, non interest bearing and usually settled within 30-90 days of recognition.

1.21 Interest bearing liabilities

Interest bearing liabilities are initially recognised at fair value, net of transaction costs incurred. After initial recognition the liabilities are carried at amortised cost using the effective interest method.

Interest bearing liabilities are classified as current liabilities unless the Consolidated Entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

1.22 Provisions

A provision is recognised in the Statement of Financial Position when the Consolidated Entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. A description of the nature of each provision is disclosed in Note 18.

1.23 Employee benefits

1.23.1 Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for wages and salaries (including non-monetary benefits) and annual leave in respect of employees' services up to the reporting date are measured at the undiscounted amounts expected to be paid when the liability is settled including on-costs such as payroll tax, superannuation and workers compensation insurance.

Non-accumulating benefits such as sick leave are not provided for and are expensed as the benefits are taken by employees.

1.23.2 Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made for services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using the rates attached to national government bonds at the balance date that have maturity dates approximating the expected future cash outflows.

1.23.3 Superannuation contributions

Contributions are only made to defined contribution funds, and are recognised as an expense in the Statement of Comprehensive Income as they become payable.

1.23.4 Share-based payments

Share-based compensation is provided to eligible employees as part of their remuneration. The fair value of rights granted to employees is recognised as an employee benefits expense with a corresponding increase to the share-based payments reserve.

The fair value is measured at grant date and recognised as an expense over the period during which the employees become unconditionally entitled to the underlying shares.

The fair value of the rights granted is valued by an external valuer taking into account the terms and conditions upon which the rights were granted.

The amount recognised as an expense is adjusted to reflect the actual number of share rights that vest (except in cases where forfeiture is due to the Total Shareholder Return (TSR) being below the vesting threshold).

Where a tax deduction arises for the settlement of share-based payments, the amount recognised as a benefit to income tax expense is limited to the tax effect of the related share-based payments expense. Any remaining amount is recognised directly in equity in the share-based payments reserve. A deferred tax balance is recognised for any deductions earned for which the related share-based payment has not been recognised and for the estimate of any probable deductions that will occur in the future.

1.23.5 Bonus plans

The Consolidated Entity recognises a provision and an expense for bonuses payable under the Short Term Incentive (STI) Scheme based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Consolidated Entity recognises a provision when a contractual obligation exists or where there is a past practice that has created a constructive obligation.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.24 Contributed Equity

Ordinary shares are classified as contributed equity.

Incremental costs directly attributable to the issue of new shares or options are shown in contributed equity as a deduction, net of tax, from the proceeds.

1.25 Dividends

Provision is made for the amount of any dividend declared in respect of ordinary shares on or before the end of the period but not distributed at the balance date.

1.26 Earnings per share

1.26.1 Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

1.26.2 Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

1.27 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year based on the corporate tax rate of 30% and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for Financial Statements purposes and the amounts used for taxation purposes, with the exception of goodwill. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance date.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses, except where the deferred income tax asset relating to the deductible difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The Company and its wholly owned Australian resident entities have formed a tax-consolidated group with effect from 28 July 2002 and have therefore been taxed as a single entity from that date. The head entity within the tax-consolidated group is David Jones Limited.

Current tax expense, 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 'group allocation' approach.

Details of the Consolidated Entity's tax funding agreement and tax sharing agreement are disclosed in Note 5.

1.28 Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

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 are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

2. OTHER INCOME

	2012	2011
	\$000	\$000
Commissions received	54,498	51,822
Sundry income	3,042	3,584
Financial services fees & interest – David Jones store card	28	120
Total Other Income	57,568	55,526

3. PROFIT BEFORE INCOME TAX

Profit before income tax includes the following items:

Rental expense on operating leases:

Minimum lease payments	80,603	78,701
Contingent rentals	3,675	5,145
Total rental expense	84,278	83,846

Net finance costs:

Interest and finance charges (gross)	10,884	7,559
Net unrealised foreign exchange loss	38	230
Hedging loss	16	–
Total finance costs	10,938	7,789
Finance income	(347)	(401)
Net finance costs	10,591	7,388

Depreciation and amortisation:

Depreciation	50,029	43,344
Amortisation	1,920	2,532
Total depreciation and amortisation	51,949	45,876

Other items:

Loss on disposal of plant and equipment	823	748
Share-based payments	(625)	5,846
Defined contribution superannuation expense	24,086	24,184
Amount set aside to provide for Directors' retirement allowance	68	78

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

4. SEGMENT REPORTING

Operating segments

Operating segments are defined with reference to information regularly reviewed by the Consolidated Entity's Chief Executive Officer and Managing Director (chief operating decision maker).

The Consolidated Entity operates in Australia and was organised into the following operating segments by product and service type for the financial year:

- Department Stores comprising David Jones department stores, rack stores, online and corporate office; and
- Financial Services comprising the alliance between the Consolidated Entity and American Express.

Unallocated items

Interest revenue and some interest expenses are not allocated to operating segments as they are not considered part of the core operations of a specific segment.

Segment accounting policies

Segment accounting policies are the same as the Consolidated Entity's policies described in Note 1, except for interest revenue and some interest expenses.

During the financial year, there were no changes in segment accounting policies that had a material effect on segment information.

For the 52 weeks ended 28 July 2012	Department Stores	Financial Services	Unallocated	Consolidated
Operating segments:	\$000	\$000	\$000	\$000
Revenue from sale of goods	1,867,817	-	-	1,867,817
Gross profit	699,830	-	-	699,830
Other income:				
Commissions earned	-	54,757	-	54,757
Other revenues from external customers	2,811	-	-	2,811
Total other income	2,811	54,757		57,568
Depreciation and amortisation	(51,939)	(10)	-	(51,949)
Share based payments	625	-	-	625
All other expenses	(546,332)	(5,329)	-	(551,661)
Total expenses	(597,646)	(5,339)	-	(602,985)
Segment earnings result	104,995	49,418	-	154,413
Reconciliation to statutory profit before tax				
Finance income	-	-	347	347
Finance costs	-	-	(10,938)	(10,938)
Net finance costs	-	-	(10,591)	(10,591)
Statutory profit before tax				143,822

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

4. SEGMENT REPORTING (CONTINUED)

For the 52 weeks ended 30 July 2011	Department Stores	Financial Services	Unallocated	Consolidated
Operating segments:	\$000	\$000	\$000	\$000
Revenue from sale of goods	1,961,744	–	–	1,961,744
Gross profit	767,270	–	–	767,270
Other income:				
Commissions earned	–	52,182	–	52,182
Other revenues from external customers	3,344	–	–	3,344
Total other income	3,344	52,182	–	55,526
Depreciation and amortisation	(45,872)	(4)	–	(45,876)
Share based payments	(5,846)	–	–	(5,846)
All other expenses	(519,893)	(4,471)	–	(524,364)
Total expenses	(571,611)	(4,475)	–	(576,086)
Segment earnings before result	199,003	47,707	–	246,710
Reconciliation to statutory profit before tax				
Finance income	–	–	401	401
Finance costs	–	–	(7,789)	(7,789)
Net finance costs	–	–	(7,388)	(7,388)
Statutory profit before tax				239,322

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

5. INCOME TAX EXPENSE

	2012	2011
	\$000	\$000
Recognised in the Statement of Comprehensive Income:		
Current tax expense		
Current year	43,778	61,481
Under/(over) provision in prior years	85	(1,624)
	43,863	59,857
Deferred tax expense/(benefit)		
(Reversal)/ Origination of temporary differences	(1,144)	11,326
Total income tax expense in Statement of Comprehensive Income	42,719	71,183
Profit before income tax expense	143,822	239,322
Tax at the corporate tax rate of 30% (2011: 30%)	43,146	71,797
Increase in income tax expense due to:		
- Deferred tax expense for share based payments	-	1,871
- Non-deductible legal fees	562	441
- Non-deductible share-based payments expense	-	308
- Non-deductible entertainment	134	157
- Other	-	1,169
Decrease in income tax expense due to:		
- Deductible contribution to Trust for acquisition of shares for LTI Plan	-	(2,126)
- Non assessable share based payments benefit	(188)	-
- Deductible building capital works	(809)	(810)
- Other	(211)	-
	42,634	72,807
Income tax expense under/(over) provided in prior years	85	(1,624)
Income tax expense	42,719	71,183
Amounts recognised directly in equity		
Current tax recognised directly in equity		
- Share based payments	-	(3,426)
Deferred tax recognised directly in equity		
- Share based payments	(276)	1,710
- Cash flow hedges	28	150
Total amounts recognised directly in equity	(248)	(1,566)

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

5. INCOME TAX EXPENSE (CONTINUED)

Tax consolidation

The Company and its wholly owned Australian resident subsidiaries formed a tax consolidated group for income tax purposes with effect from 28 July 2002 and have therefore been taxed as a single entity from that date. The head entity within the tax consolidated group is David Jones Limited. This entity is legally liable for the income tax liabilities of the tax consolidated group. The accounting policies dealing with the accounting treatment of the tax consolidation are set out in Note 1.

Nature of tax funding agreement and tax sharing agreement

The members of the tax-consolidated group have entered into a tax funding agreement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding agreement requires payments to/(from) the head entity equal to the current tax liability/(asset) assumed by the head entity, and for any deferred tax assets arising from tax losses assumed by the head entity, resulting in the head entity recognising an inter-entity payable/(receivable) equal to the amount of the tax liability/(asset) assumed.

The members of the tax-consolidated group have also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the Financial Statements in respect of this agreement, as payment of any amounts under the tax sharing agreement is considered remote.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

6. DIVIDENDS

	CENTS PER SHARE	TOTAL AMOUNT \$000	DATE OF PAYMENT
Dividends recognised by the Company:			
2012			
2011 Final ordinary	15.0	77,693	7 November 2011
2012 Interim ordinary	10.5	54,824	7 May 2012
Total dividends recognised		132,517	
2011			
2010 Final ordinary	18.0	91,344	8 November 2010
2011 Interim ordinary	13.0	66,372	9 May 2011
Total dividends recognised		157,716	

All dividends paid in the current and prior financial year were fully franked at the tax rate of 30%.

During the year, 7,904,205 shares (2011: 5,805,636) were issued under the Dividend Reinvestment Plan. Dividends settled in shares rather than cash amounted to \$21.923 million (2011: \$27.512 million).

Subsequent event

Since the end of the financial year, the Directors have declared the following dividend on ordinary shares, fully franked at the tax rate of 30%:

2012 Final ordinary	7.0	37,006	5 November 2012
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The financial effect of the final ordinary dividend for 2012 has not been recognised in the Financial Statements for the 52 weeks ended 28 July 2012 and will be recognised in subsequent financial statements.

Dividend franking account

Franking credits available to shareholders of the Company for subsequent financial years, based on a tax rate of 30% (2011: 30%) are \$ 63.250 million (2011: \$76.498 million).

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the current tax liability;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that may be prevented from being distributed in subsequent financial years.

The impact on the franking account of the dividend recommended by the Directors since the end of the financial year, but not recognised as a liability at year end, will be a reduction in the franking account of \$15.860 million (2011: \$33.477 million).

For income tax purposes, the Company and its wholly owned Australian subsidiaries formed a tax-consolidated group for which one franking account is maintained.

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

7. EARNINGS PER SHARE

	2012	2011
	CENTS PER SHARE	CENTS PER SHARE
Basic earnings per share	19.4	33.0
Diluted earnings per share	19.4	32.4

	\$000	\$000
The following data was used in calculating basic and dilutive earnings per share:		
Profit after income tax expense	101,103	168,139

	NUMBER	NUMBER
Weighted average number of ordinary shares used in the calculation of basic earnings per share	520,854,488	509,566,775
Effect of dilution – LTI Plan	1,452,494	9,128,368
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	522,306,982	518,695,143

There have been no other material transactions involving ordinary shares or potential ordinary shares since balance date and before the completion of these Financial Statements.

At 28 July 2012, 4,361,506 LTI and Retention Plan rights (2011: 3,852,872) were excluded from the weighted average number of ordinary shares used in the calculation of diluted earnings per share as their effect would have been non-dilutive.

8. CASH AND CASH EQUIVALENTS

	2012	2011
	\$000	\$000
Cash at bank and on hand	11,536	11,703
Short term deposits	9,000	–
	20,536	11,703

The Consolidated Entity's exposure to interest rate risk, including a sensitivity analysis for financial assets and liabilities, is disclosed in Note 32.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

9. RECEIVABLES

	2012	2011
	\$000	\$000
CURRENT		
Amounts receivable from suppliers	11,266	13,784
Less: Allowance for doubtful debts	(3,548)	(3,321)
Net amounts receivable from suppliers	7,718	10,463
Other receivables	8,671	9,174
	16,389	19,637

Notes:

- (i) Amounts receivable from suppliers and other debtors are non-interest bearing and are generally on 30 to 90 day terms.
- (ii) Details of the credit risk of current receivables are disclosed in Note 32.

Movements in the allowance for doubtful debts from suppliers

Balance at the beginning of the year	(3,321)	(3,354)
(Charge)/reversal for the year	(397)	2
Written off during the year	170	31
Balance at the end of the year	(3,548)	(3,321)

Aged Analysis of Receivables

Neither past due nor impaired	1,472	2,610
Less than 30 days overdue and not impaired	5,970	5,738
More than 30 days but less than 90 days overdue and not impaired	202	1,047
More than 90 days overdue and not impaired	74	1,068
Total amounts due from suppliers, net of provision for doubtful debts	7,718	10,463

Based on the credit history of Other receivables, it is expected that these amounts will be received when due.

The credit quality of all financial assets is consistently monitored with reference to historical default rates, payment history, account aging, borrower specific events, consumer credit bureau and other publicly available information so as to identify any potential adverse changes in credit quality. The credit quality of receivables at balance date is considered satisfactory.

The Consolidated Entity's accounting policy for impairment is disclosed in Note 1.16.

10. INVENTORIES

	2012	2011
	\$000	\$000
Retail inventories	279,099	288,850
	279,099	288,850

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

11. FINANCIAL ASSETS

	2012	2011
	\$000	\$000
CURRENT		
Forward exchange contracts	24	–
	24	–
NON-CURRENT		
Shares in other corporations	12	12
	12	12

Forward exchange contracts are designated as cash flow hedges. Information in relation to the Consolidated Entity's exposure to forward exchange and interest rate risks are disclosed in Note 32.

12. OTHER ASSETS

	2012	2011
	\$000	\$000
CURRENT		
Prepayments	7,201	6,911
	7,201	6,911
NON-CURRENT		
Prepayments	394	189
	394	189

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

13. PROPERTY, PLANT AND EQUIPMENT

The movements in the Consolidated Entity's property, plant and equipment balances are as follows:

	Land, Buildings and Integral Plant	Leasehold Improvements	Plant and Equipment	Computer Equipment	Fixtures and Fittings	Work in Progress	Total
Year ended 28 July 2012	\$000	\$000	\$000	\$000	\$000	\$000	\$000
At 30 July 2011, net of accumulated depreciation	462,539	69,137	58,155	8,507	166,136	33,942	798,416
Additions	–	17,421	8,190	1,333	51,304	(8,239)	70,009
Disposals	–	(17)	(71)	(12)	(864)	–	(964)
Transfer and Reclassification	–	–	–	–	–	–	–
Depreciation charge for the year	(4,282)	(6,603)	(6,152)	(1,550)	(31,442)	–	(50,029)
At 28 July 2012, net of accumulated depreciation	458,257	79,938	60,122	8,278	185,134	25,703	817,432
At 28 July 2012							
Cost	475,742	167,804	121,578	35,489	386,122	25,703	1,212,438
Accumulated depreciation	(17,485)	(87,866)	(61,456)	(27,211)	(200,988)	–	(395,006)
Net carrying amount	458,257	79,938	60,122	8,278	185,134	25,703	817,432
Year ended 30 July 2011							
At 31 July 2010, net of accumulated depreciation	381,499	91,656	19,159	6,156	125,998	137,097	761,565
Additions	85,669	11,076	20,752	3,654	64,404	(104,614)	80,941
Disposals	–	(4)	(65)	(2)	(675)	–	(746)
Transfer and Reclassification	–	(27,735)	24,020	–	3,715	–	–
Depreciation charge for the year	(4,629)	(5,856)	(5,711)	(1,301)	(27,306)	1,459	(43,344)
At 30 July 2011, net of accumulated depreciation	462,539	69,137	58,155	8,507	166,136	33,942	798,416
At 30 July 2011							
Cost	475,742	158,655	120,811	39,168	375,834	33,942	1,204,152
Accumulated depreciation	(13,203)	(89,518)	(62,656)	(30,661)	(209,698)	–	(405,736)
Net carrying amount	462,539	69,137	58,155	8,507	166,136	33,942	798,416

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

14. INTANGIBLE ASSETS

The movements in the Consolidated Entity's intangible asset balances are as follows:

	Software	Goodwill	Total
	\$000	\$000	\$000
Year ended 28 July 2012			
At 30 July 2011, net of accumulated amortisation	4,117	30,305	34,422
Additions	11,475	–	11,475
Disposals	–	–	–
Amortisation charge for the year	(1,920)	–	(1,920)
At 28 July 2012, net of accumulated amortisation	13,672	30,305	43,977
At 28 July 2012			
Cost	44,308	30,305	74,613
Accumulated amortisation	(30,636)	–	(30,636)
Net carrying amount	13,672	30,305	43,977
Year ended 30 July 2011			
At 31 July 2010, net of accumulated amortisation	6,075	30,305	36,380
Additions	576	–	576
Disposals	(2)	–	(2)
Amortisation charge for the year	(2,532)	–	(2,532)
At 30 July 2011, net of accumulated amortisation	4,117	30,305	34,422
At 30 July 2011			
Cost	32,925	30,305	63,230
Accumulated amortisation	(28,808)	–	(28,808)
Net carrying amount	4,117	30,305	34,422

Impairment test for goodwill and other assets

The goodwill balance relates to the acquisition of a group of department stores in Western Australia (\$10.3 million) and a department store in New South Wales (\$20.0 million). The recoverable amount of these Cash Generating Units (CGUs) has been determined on the basis of a value in use calculation. The calculation uses a cash flow projection over the remaining term of each store lease discounted at a pre-tax rate of 14.3% (2011: 14.8%). The cash flows are based on financial projections for each CGU using a long term sales growth rate of between zero percent and 1.0% (2011: zero percent and 1.0%) for the remaining lease period, and reflect both past experience and market expectations. The discount rate is derived from the Consolidated Entity's weighted average cost of capital. Sensitivity analyses were performed by management, taking the financial projections noted and reducing sales by up to 20.0% with the discount rate being increased to 15.3%. The results of the sensitivity analyses indicate that under these conditions it is reasonable to expect that no impairment losses would arise.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

15. DEFERRED TAX ASSETS AND LIABILITIES

	2012	2011
	\$000	\$000
Deferred tax assets are attributable to the following items:		
Inventory	10,221	10,838
Plant and equipment	20,375	20,601
Accrued expenses	7,967	6,073
Provisions for:		
– Directors retirement allowance	140	400
– Doubtful debts	1,064	996
– Employee benefits	8,767	8,613
– Sales returns	622	507
Gift card non-redemption provision	(741)	(851)
Straight-lining of lease rentals	8,301	8,288
Hedge accounting	395	423
Share based payments	(1,280)	(1,556)
Other amounts	2	78
	55,833	54,410
Reconciliation of movement of deferred tax assets:		
Opening balance	54,410	68,483
Under / (Over) provision in prior years	31	–
Charges recognised in Statement of Comprehensive Income	1,144	(12,213)
Amounts recognised against equity	248	(1,860)
	55,833	54,410

16. PAYABLES

Trade payables	134,502	97,794
Other payables and accruals	130,093	118,635
	264,595	216,429

17. INTEREST BEARING LIABILITIES

CURRENT

Bank overdraft	6	2,943
Unsecured bank loans	11,000	–
	11,006	2,943

NON-CURRENT

Unsecured bank loans	125,000	–
Unsecured syndicated bank loan	–	129,000
	125,000	129,000

Information in relation to the Consolidated Entity's exposure to interest rate risk is disclosed in Note 32.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

17. INTEREST BEARING LIABILITIES (CONTINUED)

Unsecured bank loan

The amount owing under the unsecured syndicated bank loan facility of \$350 million, established in July 2007, was repaid and the facility cancelled on 16 December 2011.

On that date, new unsecured bank loan facilities of \$400 million were established. The unsecured bank loan facilities are comprised of the following tranches:

- \$100 million short term tranche, expiring 15 December 2012;
- \$100 million core term tranche, expiring 15 December 2014; and
- \$200 million core term tranche, expiring 15 December 2016.

The facilities are subject to a negative pledge and borrowing covenants between the Company, certain controlled entities within the Group and the facility lenders.

	2012	2011
	\$000	\$000
Financing facilities		
Access to the following lines of credit was available at balance date:		
Total facilities (i)		
Unsecured bank loan facilities	400,000	–
Unsecured syndicated bank loan facilities	–	350,000
Overdraft and trade finance facility (ii)	29,281	29,600
Bank guarantee facility	910	1,024
	430,191	380,624
Used at balance date		
Unsecured bank loans facilities	136,000	–
Unsecured syndicated bank loan facilities	–	129,000
Overdraft and trade finance facility	6	2,943
Bank guarantee facility	910	1,024
	136,916	132,967
Unused at balance date		
Unsecured bank loans facilities	264,000	–
Unsecured syndicated bank loan facilities	–	221,000
Overdraft and trade finance facility	29,275	26,657
Bank guarantee facility	–	–
	293,275	247,657

Notes:

- (i) All facilities are denominated in Australian dollars, unsecured and subject to borrowing covenants, which have been met.
- (ii) The overdraft and trade finance facilities are subject to annual review in November each year. The overdraft facilities can be cancelled by the lender on 30 days notice.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

18. PROVISIONS

	2012	2011
	\$000	\$000
CURRENT		
Employee entitlements	23,881	23,690
Sales returns	2,074	1,692
Dismantling and restoration	–	1,036
	25,955	26,418
NON-CURRENT		
Employee entitlements	5,717	5,160
Directors' retirement allowance	466	1,332
	6,183	6,492

Movement

Movement in the carrying amount of each class of provision, excluding employee benefits and Directors' retirement allowance, are set out below.

	Sales Returns \$000	Dismantling and Restoration \$000	Total \$000
Balance at the beginning of the year	1,692	1,036	2,728
Provisions made during the year	382	–	382
Provisions used during the year	-	(1,036)	(1,036)
Balance at the end of the year	2,074	–	2,074
Current	2,074	–	2,074
Total	2,074	–	2,074

Sales returns

A provision is recognised for the estimated cost of sales returns, which have occurred during the year. The provision is estimated with reference to actual sales during the period and the historical level of sales returns processed in accordance with the Consolidated Entity's returns policy.

Dismantling and restoration

A provision is recognised in respect of existing lease contracts for the estimated present value of expenditure required to complete dismantling and site restoration obligations under those contracts at balance date. Future dismantling and restoration costs are reviewed annually.

The amount of the provision for future dismantling costs is capitalised and is amortised in accordance with the policy set out in Note 1.18.1. The unwinding of the effect of discounting of the provision is recognised as a finance expense.

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

19. FINANCIAL LIABILITIES

	2012	2011
	\$000	\$000
CURRENT		
Forward exchange contracts	819	921
Interest rate swap contracts	538	488
	1,357	1,409

Forward exchange and interest rate swap contracts are designated as cash flow hedges. Information in relation to the Consolidated Entity's exposure to forward exchange and interest rate risks are disclosed in Note 32.

20. OTHER LIABILITIES

	2012	2011
	\$000	\$000
CURRENT		
Lease accrual for rent straight line adjustment	288	280
	288	280
NON-CURRENT		
Lease accrual for rent straight line adjustment	27,712	27,445
	27,712	27,445

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

21. CONTRIBUTED EQUITY

	2012	2011
	\$000	\$000
Ordinary shares, fully paid	547,028	525,105
	547,028	525,105

Movements in ordinary share capital

Balance at the beginning of the year	525,105	502,199
Dividend Reinvestment Plan	21,923	27,512
On-market purchase of shares by Trust	–	(4,743)
Employee share purchase plan	–	137
Balance at the end of the year	547,028	525,105

Movements in the number of ordinary shares:

	2012	2011
Balance at the beginning of the year	520,751,395	510,945,759
Dividend Reinvestment Plan	7,904,205	5,805,636
Shares issued to and held by Trust	–	4,000,000
Balance at the end of the year	528,655,600	520,751,395
Less: ordinary shares held by Trust	(2,805,717)	(8,478,674)
Balance for the Consolidated entity	525,849,883	512,272,721

Terms and conditions of ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

In the event of the winding up of the Company, ordinary shareholders rank after all other shareholders and creditors, and are fully entitled to any proceeds of liquidation.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

22. RESERVES

	2012	2011
	\$000	\$000
Share-based payments reserve	75,284	75,633
Cash flow hedge reserve	(922)	(986)
	74,362	74,647
Movements:		
Share based payments reserve		
Balance at the beginning of the year	75,633	68,071
Share based payments	(625)	5,846
Income tax recognised directly in equity	276	1,716
Balance at the end of the year	75,284	75,633
Cash flow hedge reserve		
Balance at the beginning of the year	(986)	(1,337)
Movement during the year in interest rate swaps	(33)	(124)
Movement during the year in foreign exchange contracts	125	625
Income tax recognised directly in equity	(28)	(150)
Balance at the end of the year	(922)	(986)

Share based payments reserve

The share based payments reserve is used to recognise the fair value of LTI and Retention Plan rights issued and the income tax effect of amounts recognised directly in equity.

Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

23. RETAINED EARNINGS

	2012	2011
	\$000	\$000
Balance at the beginning of the year	185,728	175,305
Net profit attributable to members of the parent entity	101,103	168,139
Dividends recognised on ordinary shares during the year	(132,517)	(157,716)
Balance at the end of the year	154,314	185,728

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

24. RECONCILIATION OF PROFIT AFTER INCOME TAX TO THE NET CASH FLOWS FROM OPERATIONS

	2012	2011
	\$000	\$000
Profit after income tax	101,103	168,139
Adjusted for other non-cash items and transfers:		
– Depreciation and amortisation expenses	51,949	45,876
– Net loss on disposal of assets	823	748
– Loss on ineffective hedge	16	–
– Share-based payments	(625)	5,846
Changes in assets and liabilities:		
– Decrease in receivables	3,248	3,115
– Decrease/(increase) in inventories	9,751	(6,504)
– Increase in other assets	(495)	(1,323)
– Increase/(decrease) in payables	48,166	(28,100)
– (Decrease)/increase in taxation	(16,704)	11,335
– Decrease in provisions	(772)	(14,510)
– Increase/(decrease) in other liabilities	277	(2,184)
Net cash from operating activities	196,737	182,438

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

25. CONTINGENT LIABILITIES

The Directors are of the opinion that provisions are not required in respect of the matters disclosed below, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of being reliably measured.

Indemnities

	CONSOLIDATED		DAVID JONES LIMITED	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Indemnities to third parties given in the ordinary course of business	910	1,024	910	1,024

Litigation

In the ordinary course of its business, the Consolidated Entity becomes involved in litigation. Provisions and accruals have been made for known obligations and associated costs where the existence of the liability is probable and can be reliably measured. As the outcomes of these matters remain uncertain, contingent liabilities exist for any amounts that ultimately become payable over and above current provisioning and accrual levels.

Finance facilities

David Jones Finance Pty Limited, a controlled entity within the Group, is the borrower of certain finance facilities. The borrowings of David Jones Finance Pty Limited are guaranteed by the Company and certain controlled entities.

Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit, and lodgement of Financial Statements and Directors' Reports.

It is a condition of the Class Order that the Company and each of the participating subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed, dated 22 March 2005, is that the Company guarantees to each creditor, payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act*. If a winding up occurs under other provisions of the *Corporations Act*, the Company will only be liable in the event that, after six months, any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- David Jones Financial Services Limited;
- David Jones Finance Pty Limited;
- 299-307 Bourke Street Pty Limited; and
- David Jones Properties Pty Limited.

The Company and the above subsidiaries represent a Closed Group for the purposes of the Class Order.

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

25. CONTINGENT LIABILITIES (CONTINUED)**Deed of cross guarantee (continued)**

Set out below is a consolidated income statement and a consolidated statement of financial position comprising the Company and the controlled entities that are party to the Deed, after eliminating all transactions between these parties, at balance date.

	2012	2011
	\$000	\$000
Summarised Income Statement		
Profit before related income tax expense	141,559	238,409
Income tax expense	(42,819)	(71,281)
Profit after income tax expense	98,740	167,128
Summary of movements in consolidated retained earnings		
Balance at the beginning of the year	174,800	165,388
Dividends recognised during the year	(132,517)	(157,716)
Net profit attributable to parties of the Closed Group	98,740	167,128
Balance at the end of the year	141,023	174,800

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

25. CONTINGENT LIABILITIES (CONTINUED)

Deed of cross guarantee (continued)

	2012	2011
	\$000	\$000
Statement of Financial Position		
CURRENT ASSETS		
Cash and cash equivalents	20,536	11,703
Receivables	16,389	19,637
Inventories	279,099	288,850
Financial assets	24	–
Other assets	7,201	6,911
Total current assets	323,249	327,101
NON-CURRENT ASSETS		
Financial assets	70,255	70,255
Property, plant and equipment	817,432	798,416
Intangible assets	33,672	24,117
Deferred tax assets	55,831	54,410
Other assets	394	189
Total non-current assets	977,584	947,387
Total assets	1,300,833	1,274,488
CURRENT LIABILITIES		
Payables	336,093	287,295
Interest bearing liabilities	11,006	2,943
Current tax liabilities	3,097	18,654
Provisions	25,955	26,418
Financial liabilities	1,357	1,409
Other liabilities	288	280
Total current liabilities	377,796	336,999
NON-CURRENT LIABILITIES		
Interest bearing liabilities	125,000	129,000
Provisions	6,183	6,492
Other liabilities	27,712	27,445
Total non-current liabilities	158,895	162,937
Total liabilities	536,691	499,936
Net assets	764,142	774,552
EQUITY		
Contributed equity	547,028	525,105
Reserves	76,091	74,647
Retained earnings	141,023	174,800
Total equity	764,142	774,552

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

26. COMMITMENTS FOR EXPENDITURE

	CONSOLIDATED		DAVID JONES LIMITED	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Capital expenditure commitments				
Commitments for the acquisition of property, plant and equipment contracted for at the reporting date but not recognised as a liability in the Financial Statements, payable:				
Within one year	14,851	20,291	14,851	20,291
Later than one year but not later than five years	–	–	–	–
Later than five years	–	–	–	–
	14,851	20,291	14,851	20,291
Operating lease commitments				
Future operating lease rentals payable:				
Within one year	82,427	78,712	82,427	78,712
Later than one year but not later than five years	318,139	304,155	318,139	304,155
Later than five years	932,750	931,511	932,750	931,511
	1,333,316	1,314,378	1,333,316	1,314,378

The Consolidated Entity leases retail premises and warehousing facilities. The operating lease agreements are for an average term of 23 years and include renewal options. Under most leases, the Consolidated Entity is responsible for property taxes, insurance, maintenance and other expenses related to the leased properties.

The operating lease commitments set out above comprise base rental payments plus agreed percentage increases.

27. AUDITOR'S REMUNERATION

	2012	2011
	\$	\$
During the financial year, the following fees were paid or payable for services provided by Ernst & Young, the auditor of David Jones Limited and its Controlled Entities:		
Audit services:		
– Audit and review of Financial Statements	505,000	591,965
	505,000	591,965
Other assurance services		
	55,500	
	560,500	591,965

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

28. KMP DISCLOSURES

Key Management Personnel (KMP) are persons having the authority and responsibility for planning, directing and controlling the Company's activities directly or indirectly, including Directors of David Jones Limited. The information shown is for the Consolidated Entity and the Company.

	2012	2011
	\$	\$
Compensation by category for KMP		
Short term employee benefits	8,509,231	9,533,145
Post employment benefits	477,310	445,371
Termination benefits	1,182,754	–
Other long term benefits	203,456	175,367
Share-based payments	1,684,335	2,995,448
Total compensation	12,057,086	13,149,331

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

28. KMP DISCLOSURES (CONTINUED)**EQUITY HOLDINGS OF KMP****Long Term Incentive (LTI) Plan rights holdings of KMP**

The following tables show the movements in LTI Plan rights holdings of KMP for the current and prior financial year.

For the 52 week period ended 28 July 2012

Name	LTI Plan	Holding at 30 July 2011 ¹ Number	Granted as Remuner- ation ¹ Number	Vested and converted during the Year Number	Forfeited/ Lapsed during the Year ² Number	Holding at 28 July 2012 ⁴ Number	Fair Value of Right (TSR) ⁶ \$	Fair Value of Right (NPAT) ⁶ \$
Directors								
Paul Zahra								
	09-12 retention offer							
	- Tranche 2	200,000	-	(200,000)	-	-	1.64	2.74
	- Tranche 3	170,000	-	(170,000)	-	-	1.65	2.74
	- Tranche 4	400,000	-	-	(278,000)	122,000	1.57	2.51
	09-12 Additional offer							
	- Tranche 3	212,500	-	-	-	212,500	3.64	3.95
	- Tranche 4	250,000	-	-	(173,750)	76,250	3.45	3.95
<i>Value vested/lapsed⁵</i>				\$1,113,700	(\$1,084,200)			
Stephen Goddard								
	09-11 retention offer							
	- Tranche 1	519,677	-	(519,677)	-	-	1.63	1.82
	- Tranche 2	519,677	-	(519,677)	-	-	1.59	1.82
	- Tranche 3	588,968	-	(588,968)	-	-	1.61	1.82
	09-12 retention offer							
	- Tranche 4	250,000	-	-	(173,750)	76,250	3.45	3.95
<i>Value vested/lapsed⁵</i>				\$4,901,250	(\$417,000)			
Executives								
Antony Karp								
	09-12 retention offer							
	- Tranche 2	200,000	-	(200,000)	-	-	1.64	2.74
	- Tranche 3	170,000	-	(170,000)	-	-	1.65	2.74
	- Tranche 4	400,000	-	-	(278,000)	122,000	1.57	2.51
<i>Value vested/lapsed⁵</i>				\$1,113,700	(\$667,200)			
Patrick Robinson								
	09-12 retention offer							
	- Tranche 2	200,000	-	(200,000)	-	-	1.64	2.74
	- Tranche 3	170,000	-	(170,000)	-	-	1.65	2.74
	- Tranche 4	400,000	-	-	(278,000)	122,000	1.57	2.51
<i>Value vested/lapsed⁵</i>				\$1,113,700	(\$667,200)			
Karen McLachlan								
	09-12 retention offer							
	- Tranche 2	160,000	-	(160,000)	-	-	1.64	2.74
	- Tranche 3	136,000	-	(136,000)	-	-	1.65	2.74
	- Tranche 4	320,000	-	-	(320,000)	-	1.57	2.51
<i>Value vested/lapsed⁵</i>				\$890,960	(\$704,000)			
Paula Bauchinger								
	09-12 retention offer							
	- Tranche 2	68,000	-	(68,000)	-	-	1.64	2.74
	- Tranche 3	57,800	-	(57,800)	-	-	1.65	2.74
	- Tranche 4	136,000	-	-	(94,520)	41,480	1.57	2.51
<i>Value vested/lapsed⁵</i>				\$378,658	(\$226,848)			

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28. KMP DISCLOSURES (CONTINUED)

For the 52 week period ended 28 July 2012 (continued)

Name	LTI Plan	Holding at 30 July 2011 ¹ Number	Granted as Remuner- ation ¹ Number	Vested and converted during the Year Number	Forfeited/ Lapsed during the Year ² Number	Holding at 28 July 2012 ⁴ Number	Fair Value of Right (TSR) ⁵ \$	Fair Value of Right (NPAT) ⁶ \$
Cate Daniels								
	09-12 retention offer							
	- Tranche 2	20,000	-	(20,000)	-	-	1.64	2.74
	- Tranche 3	14,000	-	(14,000)	-	-	1.65	2.74
	- Tranche 4	40,000	-	-	(40,000)	-	1.57	2.51
	09-12 additional offer							
	- Tranche 3	170,000	-	-	-	170,000	4.03	4.35
	- Tranche 4	200,000	-	-	(139,000)	61,000	3.88	4.35
<i>Value vested/lapsed⁵</i>				\$102,340	(\$429,600)			
Matthew Durbin								
	09-12 retention offer							
	- Tranche 2	45,000	-	(45,000)	-	-	1.64	2.74
	- Tranche 3	38,250	-	(38,250)	-	-	1.65	2.74
	- Tranche 4	90,000	-	-	(62,550)	27,450	1.57	2.51
	09-12 additional offer							
	- Tranche 3	95,625	-	-	-	95,625	4.03	4.35
	- Tranche 4	112,500	-	-	(78,188)	34,312	3.88	4.35
<i>Value vested/lapsed⁵</i>				\$250,583	(\$337,771)			
David Robinson								
	09-12 one-off offer							
	- Tranche 1	45,000	-	(45,000)	-	-	-	4.03
	- Tranche 2	14,783	-	(14,783)	-	-	-	4.03
	- Tranche 3	24,098	-	(24,098)	-	-	-	4.03
	09-12 additional offer							
	- Tranche 4	100,000	-	-	(69,500)	30,500	3.16	3.75
<i>Value vested/lapsed⁵</i>				\$252,482	(\$166,800)			
Sacha Laing								
	09-12 retention offer							
	- Tranche 2	45,000	-	(45,000)	-	-	1.64	2.74
	- Tranche 3	31,500	-	(31,500)	-	-	1.65	2.74
	- Tranche 4	90,000	-	-	(90,000)	-	1.57	2.51
	09-12 additional offer							
	- Tranche 3	116,875	-	-	-	116,875	4.03	4.35
	- Tranche 4	137,500	-	-	(95,562)	41,938	3.88	4.35
<i>Value vested/lapsed⁵</i>				\$230,265	(\$445,349)			
Brett Riddington								
	09-12 retention offer							
	- Tranche 2	40,000	-	(40,000)	-	-	1.64	2.74
	- Tranche 3	28,000	-	(28,000)	-	-	1.65	2.74
	- Tranche 4	80,000	-	-	(80,000)	-	1.57	2.51
	09-12 additional offer							
	- Tranche 3	85,000	-	-	-	85,000	4.03	4.35
	- Tranche 4	100,000	-	-	(69,500)	30,500	3.88	4.35
<i>Value vested/lapsed⁵</i>				\$204,680	(\$358,800)			

Notes:

- The number of rights granted to each participant in the LTI Plan may not convert to an equivalent number of ordinary shares due to specified financial performance and employment conditions not being satisfied.
- During the 52 weeks ended 28 July 2012, rights were forfeited due to employment or financial performance conditions not being satisfied.
- Non-Executive Directors are not entitled to participate in the LTI Plan and therefore no holdings are disclosed.
- Rights held at 28 July 2012 will vest and convert to shares on 19 September 2012.
- The value of rights that have
 - vested during the year is calculated using the weighted average share price at date of vesting.
 - forfeited/lapsed during the year is calculated using the closing share price as at 28 July 2012.
- Fair value of right as at grant date.

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28. KMP DISCLOSURES (CONTINUED)

For the 52 week period ended 30 July 2011

Name	LTI Plan	Holding at 31 July 2010 ^{1,4}	Granted as Remuneration ¹	Vested and converted during the Year	Forfeited/ Lapsed during the Year ²	Holding at 30 July 2011 ¹	Fair Value of Right (TSR) ⁶	Fair Value of Right (NPAT) ⁶
		Number	Number	Number	Number	Number	\$	\$
Directors								
Paul Zahra								
	09-12 retention offer							
	- Tranche 1	200,000	-	(200,000)	-	-	2.09	2.97
	- Tranche 2	200,000	-	-	-	200,000	1.64	2.74
	- Tranche 3	200,000	-	-	(30,000)	170,000	1.65	2.74
	- Tranche 4	400,000	-	-	-	400,000	1.57	2.51
	09-12 additional offer							
	- Tranche 3	-	250,000	-	(37,500)	212,500	3.64	3.95
	- Tranche 4	-	250,000	-	-	250,000	3.45	3.95
<i>Value vested/lapsed⁵</i>				<i>\$1,002,000</i>	<i>(\$202,500)</i>			
Stephen Goddard								
	08-10 offer	173,156	-	(156,741)	(16,415)	-	1.69	3.02
	09-11 retention offer							
	- Tranche 1	519,677	-	-	-	519,677	1.63	1.82
	- Tranche 2	519,677	-	-	-	519,677	1.59	1.82
	- Tranche 3	692,904	-	-	(103,936)	588,968	1.61	1.82
	09-12 retention offer							
	- Tranche 4	-	250,000	-	-	250,000	3.45	3.95
<i>Value vested/lapsed⁵</i>				<i>\$785,272</i>	<i>(\$361,052)</i>			
Executives								
Antony Karp								
	09-12 retention offer							
	- Tranche 1	200,000	-	(200,000)	-	-	2.09	2.97
	- Tranche 2	200,000	-	-	-	200,000	1.64	2.74
	- Tranche 3	200,000	-	-	(30,000)	170,000	1.65	2.74
	- Tranche 4	400,000	-	-	-	400,000	1.57	2.51
<i>Value vested/lapsed⁵</i>				<i>\$1,002,000</i>	<i>(\$90,000)</i>			
Karen McLachlan								
	09-12 retention offer							
	- Tranche 1	160,000	-	(160,000)	-	-	2.09	2.97
	- Tranche 2	160,000	-	-	-	160,000	1.64	2.74
	- Tranche 3	160,000	-	-	(24,000)	136,000	1.65	2.74
	- Tranche 4	320,000	-	-	-	320,000	1.57	2.51
<i>Value vested/lapsed⁵</i>				<i>\$801,600</i>	<i>(\$72,000)</i>			
Patrick Robinson								
	09-12 retention offer							
	- Tranche 1	200,000	-	(200,000)	-	-	2.09	2.97
	- Tranche 2	200,000	-	-	-	200,000	1.64	2.74
	- Tranche 3	200,000	-	-	(30,000)	170,000	1.65	2.74
	- Tranche 4	400,000	-	-	-	400,000	1.57	2.51
<i>Value vested/lapsed⁵</i>				<i>\$1,002,000</i>	<i>(\$90,000)</i>			
Paula Bauchinger								
	09-12 retention offer							
	- Tranche 1	68,000	-	(68,000)	-	-	2.09	2.97
	- Tranche 2	68,000	-	-	-	68,000	1.64	2.74
	- Tranche 3	68,000	-	-	(10,200)	57,800	1.65	2.74
	- Tranche 4	136,000	-	-	-	136,000	1.57	2.51
<i>Value vested/lapsed⁵</i>				<i>\$340,680</i>	<i>(\$30,600)</i>			
Sacha Laing								
	09-12 retention offer							
	- Tranche 2	45,000	-	-	-	45,000	1.64	2.74
	- Tranche 3	45,000	-	-	(13,500)	31,500	1.65	2.74
	- Tranche 4	90,000	-	-	-	90,000	1.57	2.51
	09-12 additional offer							
	- Tranche 3	-	137,500	-	(20,625)	116,875	4.03	4.35
	- Tranche 4	-	137,500	-	-	137,500	3.88	4.35
<i>Value vested/lapsed⁵</i>					<i>(\$102,375)</i>			

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

28. KMP DISCLOSURES (CONTINUED)

For the 52 week period ended 30 July 2011 (continued)

Name	LTI Plan	Holding at 31 July 2010 ^{1,4} Number	Granted as Remuneration ¹ Number	Vested and converted during the Year Number	Forfeited/Lapsed during the Year ² Number	Holding at 30 July 2011 ¹ Number	Fair Value of Right (TSR) ⁶ \$	Fair Value of Right (NPAT) ⁶ \$
Matthew Durbin								
	09-12 retention offer							
	- Tranche 2	45,000	-	-	-	45,000	1.64	2.74
	- Tranche 3	45,000	-	-	(6,750)	38,250	1.65	2.74
	- Tranche 4	90,000	-	-	-	90,000	1.57	2.51
	09-12 additional offer							
	- Tranche 3	-	112,500	-	(16,875)	95,625	4.03	4.35
	- Tranche 4	-	112,500	-	-	112,500	3.88	4.35
<i>Value vested/lapsed⁵</i>					<i>(\$70,875)</i>			
Cate Daniels								
	09-12 retention offer							
	- Tranche 1	20,000	-	(20,000)	-	-	2.09	2.97
	- Tranche 2	20,000	-	-	-	20,000	1.64	2.74
	- Tranche 3	20,000	-	-	(6,000)	14,000	1.65	2.74
	- Tranche 4	40,000	-	-	-	40,000	1.57	2.51
	09-12 additional offer							
	- Tranche 3	-	200,000	-	(30,000)	170,000	4.03	4.35
	- Tranche 4	-	200,000	-	-	200,000	3.88	4.35
<i>Value vested/lapsed⁵</i>					<i>\$100,200</i>	<i>(\$108,000)</i>		
Brett Riddington								
	09-12 retention offer							
	- Tranche 2	40,000	-	-	-	40,000	1.64	2.74
	- Tranche 3	40,000	-	-	(12,000)	28,000	1.65	2.74
	- Tranche 4	80,000	-	-	-	80,000	1.57	2.51
	09-12 additional offer							
	- Tranche 3	-	100,000	-	(15,000)	85,000	4.03	4.35
	- Tranche 4	-	100,000	-	-	100,000	3.88	4.35
<i>Value vested/lapsed⁵</i>					<i>(\$81,000)</i>			
Former Executives								
Damien Eales								
	09-12 retention offer							
	- Tranche 1	200,000	-	(200,000)	-	-	2.09	2.97
	- Tranche 2	200,000	-	-	(200,000)	-	1.64	2.74
	- Tranche 3	200,000	-	-	(200,000)	-	1.65	2.74
	- Tranche 4	400,000	-	-	(400,000)	-	1.57	2.51
<i>Value vested/lapsed⁵</i>					<i>\$1,002,000</i>	<i>(\$3,776,000)</i>		
Colette Gamsey								
	09-12 retention offer							
	- Tranche 1	200,000	-	(200,000)	-	-	2.09	2.97
	- Tranche 2	200,000	-	-	(200,000)	-	1.64	2.74
	- Tranche 3	200,000	-	-	(200,000)	-	1.65	2.74
	- Tranche 4	400,000	-	-	(400,000)	-	1.57	2.51
<i>Value vested/lapsed⁵</i>					<i>\$1,002,000</i>	<i>(\$3,800,000)</i>		

Notes:

- The number of rights granted to each participant in the LTI Plan may not convert to an equivalent number of ordinary shares due to specified financial performance and employment conditions not being satisfied.
- During the 52 weeks ended 30 July 2011, rights were forfeited due to employment or financial performance conditions not being satisfied.
- Non-Executive Directors are not entitled to participate in the LTI Plan and therefore no holdings are disclosed.
- Rights held by Executives appointed as KMP after 31 July 2010, represent their holdings as at the date of their appointment.
- The value of rights that have
 - vested during the year is calculated using the weighted average share price at date of vesting.
 - forfeited/lapsed during the year is calculated using the closing share price as at 30 July 2011.
- Fair value of right as at grant date.

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

28. KMP DISCLOSURES (CONTINUED)

Shareholdings of KMP

The following tables show the movements in the number of ordinary shares held in the Company, directly, indirectly or beneficially, by each KMP, including their related parties, for the current financial year.

For the 52 week period ended 28 July 2012

	Holding at 31 July 2011	Granted as remuneration	Allocated under LTI Plan	Net change – other ¹	Holding at 28 July 2012
Directors					
Robert Savage	137,159	-	-	8,640	145,799
Peter Mason	121,506	-	-	11,423	132,929
Paul Zahra	493,926	-	370,000	-	863,926
Stephen Goddard	607,460	-	1,628,322	-	2,235,782
Steven Vamos	-	-	-	-	-
John Harvey	44,929	-	-	3,573	48,502
Philippa Stone	9,754	-	-	20,000	29,754
Former Directors					
John Coates	54,771	-	-	(54,771)	-
Reginald Clairs	188,552	-	-	(188,552)	-
Katie Lahey	23,251	-	-	(23,251)	-
Executives					
Sacha Lainq	45,001	-	76,500	(74,000)	47,501
Antony Karp	375,010	-	370,000	7,091	752,101
Matthew Durbin	3,175	-	83,250	-	86,425
Paula Bauchinger	126,329	-	125,800	-	252,129
Cate Daniels	53,714	-	34,000	7,775	95,489
David Robinson	99	-	83,881	(83,900)	80
Donna Player	-	-	-	-	-
Brad Soller	-	-	-	-	-
Former Executives					
Karen McLachlan	3,084	-	296,000	(299,084)	-
Brett Riddington	40,000	-	68,000	(108,000)	-
Patrick Robinson	201,235	-	370,000	(571,235)	-

Note:

- 1 'Net change – other' includes on-market purchases and sales of ordinary shares, shares acquired through the Dividend Reinvestment Plan, and the closing balance of shares held by former Non-Executive Directors and Executives on the date of their cessation of office or employment.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

28. KMP DISCLOSURES (CONTINUED)

Shareholdings of KMP (continued)

The following tables show the movements in the number of ordinary shares held in the Company, directly, indirectly or beneficially, by each KMP, including their related parties, for the prior financial year.

For the 52 week period ended 30 July 2011

	Holding at 31 July 2010	Granted as remuneration	Allocated under LTI Plan	Net change – other ¹	Holding at 30 July 2011
Directors					
Robert Savage	130,882	–	–	6,277	137,159
John Coates	52,587	–	–	2,184	54,771
Paul Zahra	293,926	–	200,000	–	493,926
Stephen Goddard	607,460	–	156,741	(156,741)	607,460
Reginald Clairs	188,031	–	–	521	188,552
John Harvey	35,650	–	–	9,279	44,929
Katie Lahey	22,733	–	–	518	23,251
Peter Mason	113,940	–	–	7,566	121,506
Philippa Stone	9,754	–	–	–	9,754
Executives					
Antony Karp	349,651	–	200,000	(174,641)	375,010
Karen McLachlan	87,715	–	160,000	(244,631)	3,084
Patrick Robinson	286,171	–	200,000	(284,936)	201,235
Paula Bauchinger	116,329	–	68,000	(58,000)	126,329
Cate Daniels	30,682	–	20,000	3,032	53,714
Matthew Durbin	98,437	–	45,000	(140,262)	3,175
Brett Riddington	–	–	40,000	–	40,000
Sacha Laing	–	–	45,000	–	45,000
Former Executives					
Damian Eales	253,613	–	200,000	(453,613)	–
Colette Garnsey	22,005	–	200,000	(222,005)	–

Note:

- 'Net change – other' includes on-market purchases and sales of ordinary shares, shares acquired through the Dividend Reinvestment Plan, and the closing balance of shares held by former Executives on the date of cessation of their employment.

Other transactions and balances with KMP

David Jones employees, including KMPs, are entitled to a staff discount on purchases made from the Consolidated Entity. The discount varies according to the type of merchandise purchased and did not exceed 20% (2011: 20%)

Loans to KMP

There were no loans between the Consolidated Entity and KMPs during the 52 week period ended 28 July 2012 (or the 52 week period ended 30 July 2011).

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

29. EMPLOYEE SHARE PLANS**LTI and Retention Plans**

Rights to ordinary shares are granted to senior executives under the LTI and Retention Plans. The number of rights that vest is dependent upon the achievement of specified performance conditions. The rights can only be equity settled in ordinary shares. The information in the tables that follow relate to both the Consolidated Entity and the Company.

Movements in the LTI and Retention Plans rights for the 52 week period ended 28 July 2012:

Offer Description/Performance Period	Date of Grant	Expiry Date	NUMBER OF LTI AND RETENTION PLAN RIGHTS				Balance at 28 July 2012	Fair value per right TSR hurdle	Fair value per right NPAT hurdle
			Balance at 31 July 2011	Granted during period	Forfeited during period	Vested and converted during period ^{1,2}			
09 - 12 Retention Offer - Tranche 2 26 July 2009 – 31 July 2010	24 July 2008	30 September 2011	2,280,384	–	(38,000)	(2,242,384)	–	\$1.64	\$2.74
09 - 12 Retention Offer - Tranche 3 1 August 2010 – 30 July 2011	24 July 2008	30 September 2011	1,744,970	–	(26,600)	(1,718,370)	–	\$1.65	\$2.74
09 - 12 Retention Offer - Tranche 4 31 July 2011 – 28 July 2012	24 July 2008	19 September 2012	4,626,000	–	(4,130,070)	–	495,930	\$1.57	\$2.51
Retention Offer Executive Directors - Tranche 1 27 July 2008 – 25 July 2009	28 November 2008	30 September 2011	519,677	–	–	(519,677)	–	\$1.63	\$1.82
Retention Offer Executive Directors - Tranche 2 26 July 2009 - 31 July 2010	28 November 2008	30 September 2011	519,677	–	–	(519,677)	–	\$1.59	\$1.82
Retention Offer Executive Directors - Tranche 3 1 August 2010 – 30 July 2011	28 November 2008	30 September 2011	588,968	–	–	(588,968)	–	\$1.61	\$1.82
09 - 11 one-off offer 27 July 2008 – 30 July 2011	26 September 2007	30 September 2011	83,881	–	–	(83,881)	–	–	\$4.03
09 - 12 Additional Retention - Tranche 3 1 August 2010 – 30 July 2011	1 November 2010	19 September 2012	467,500	–	–	–	467,500	\$4.03	\$4.35
09 - 12 Additional Retention Offer - Tranche 4 31 July 2011 – 28 July 2012	1 November 2010	19 September 2012	650,000	–	(451,750)	–	198,250	\$3.88	\$4.35
09 - 12 Additional Retention Offer Executive Directors - Tranche 3 1 August 2010 – 30 July 2011	3 December 2010	19 September 2012	212,500	–	–	–	212,500	\$3.64	\$3.95
09 - 12 Additional Retention Offer Executive Directors - Tranche 4 31 July 2011 – 28 July 2012	3 December 2010	19 September 2012	500,000	–	(347,500)	–	152,500	\$3.45	\$3.95
13 - 14 Supplementary Offer 29 July 2012 – 26 July 2014	14 October 2011	October 2014	–	70,000	–	–	70,000	–	\$2.36

Note:

- The conversion of LTI Plan rights to ordinary shares is subject to financial performance and employee service conditions being met by the plan participants.
- The weighted average share price at date of vesting was \$3.01.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

29. EMPLOYEE SHARE PLANS (CONTINUED)

LTI and Retention Plans (continued)

Movements in the LTI and Retention Plans rights for the 52 week period ended 30 July 2011:

Offer Description/Performance Period	Date of Grant	Expiry Date	NUMBER OF LTI AND RETENTION PLAN RIGHTS				Balance at 30 July 2011	Fair value per right TSR hurdle	Fair value per right NPAT hurdle
			Balance at 1 August 2010	Granted during period	Forfeited during period	Vested and converted during period ^{1,2}			
08 - 10 Offer Executive Directors 29 July 2007 - 31 July 2010	23 July 2008	30 September 2010	173,156	-	(16,415)	(156,741)	-	\$1.69	\$3.02
09 - 12 Retention Offer - Tranche 1 27 July 2008 - 25 July 2009	24 July 2008	30 September 2010	2,706,000	-	(11,000)	(2,695,000)	-	\$2.09	\$2.97
09 - 12 Retention Offer - Tranche 2 26 July 2009 - 31 July 2010	24 July 2008	30 September 2011	2,718,384	-	(438,000)	-	2,280,384	\$1.64	\$2.74
09 - 12 Retention Offer - Tranche 3 1 August 2010 - 30 July 2011	24 July 2008	30 September 2011	2,726,000	-	(981,030)	-	1,744,970	\$1.65	\$2.74
09 - 12 Retention Offer - Tranche 4 31 July 2011 - 28 July 2012	24 July 2008	19 September 2012	5,502,000	-	(876,000)	-	4,626,000	\$1.57	\$2.51
Retention Offer Executive Directors - Tranche 1 27 July 2008 - 25 July 2009	28 November 2008	30 September 2011	519,677	-	-	-	519,677	\$1.63	\$1.82
Retention Offer Executive Directors - Tranche 2 26 July 2009 - 31 July 2010	28 November 2008	30 September 2011	519,677	-	-	-	519,677	\$1.59	\$1.82
Retention Offer Executive Directors - Tranche 3 1 August 2010 - 30 July 2011	28 November 2008	30 September 2011	692,904	-	(103,936)	-	588,968	\$1.61	\$1.82
09 - 11 one-off offer 27 July 2008 - 30 July 2011	26 September 2007	30 September 2011	83,881	-	-	-	83,881	-	\$4.03
09 - 12 Additional Retention - Tranche 3 1 August 2010 - 30 July 2011	1 November 2010	19 September 2012	-	550,000	(82,500)	-	467,500	\$4.03	\$4.35
09 - 12 Additional Retention Offer - Tranche 4 31 July 2011 - 28 July 2012	1 November 2010	19 September 2012	-	650,000	-	-	650,000	\$3.88	\$4.35
09 - 12 Additional Retention Offer Executive Directors - Tranche 3 1 August 2010 - 30 July 2011	3 December 2010	19 September 2012	-	250,000	(37,500)	-	212,500	\$3.64	\$3.95
09 - 12 Additional Retention Offer Executive Directors - Tranche 4 31 July 2011 - 28 July 2012	3 December 2010	19 September 2012	-	500,000	-	-	500,000	\$3.45	\$3.95

Note:

- The conversion of LTI Plan rights to ordinary shares is subject to financial performance and employee service conditions being met by the plan participants.
- The weighted average share price at date of vesting was \$5.01.

	2012 NUMBER	2011 NUMBER
Shares issued under the plan to participating employees on 30 September 2011 (2011: 30 September 2010)	5,672,957	2,851,741
	\$	\$
Market price of David Jones Limited shares on the date of issue	3.01	5.01

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

29. EMPLOYEE SHARE PLANS (CONTINUED)

Summary of LTI and Retention Plans

Offer	FY2009 – FY2012 OFFER	FY2009 – FY2011 OFFER
Offered to	Senior Executives	Finance Director
Vesting date	Staggered up to September 2012	September 2011
Performance measures	TSR compared to peer group and NPAT	TSR compared to peer group and NPAT
Retesting rules	No Retest	
Plan Status	Tranche 1 and 2 fully vested at stretch Tranche 3 vested at stretch for TSR and between target and stretch for NPAT 4 th and final tranche vested between target and stretch for TSR but below target for NPAT.	Tranche 1 and 2 vested at stretch performance 3 rd and final tranche vested at stretch for TSR and between target and stretch for NPAT
	ASX Listed Retailers	
Peer group for TSR comparator	Funtastic Limited, Harvey Norman Holdings Limited, JB Hi-Fi Limited, Metcash Limited, Nick Scali Limited, Orotongroup Limited, Specialty Fashion Group Limited, Super Retail Group Limited and Woolworths Limited.	Fantastic Holdings Limited, Funtastic Limited, Harvey Norman Holdings Limited, JB Hi-Fi Limited, Metcash Limited, Nick Scali Limited, Orotongroup Limited, Specialty Fashion Group Limited, Super Retail Group Limited and Woolworths Limited.
	Non-Retailers that demonstrate cyclical patterns	
Peer group for TSR comparator	APN News & Media Limited, Consolidated Media Holdings Limited, Fairfax Media Limited, Fisher & Paykel Appliances Holdings Limited, Flight Centre Limited, Globe International Limited, GUD Holdings Limited, Breville Group Limited, Kresta Holdings Limited, Pacific Brands Limited, PMP Limited, Salmat Limited, Seven Group Holdings Limited, STW Communications Group Limited, Ten Network Holdings Limited, Wesfarmers Limited and Seven West Media Limited.	APN News & Media Limited, Austar United Communications Limited, Consolidated Media Holdings Limited, Fairfax Media Limited, Fisher & Paykel Appliances Holdings Limited, Flight Centre Limited, GUD Holdings Limited, Breville Group Limited, Southern Cross Media Group, Pacific Brands Limited, PMP Limited, Premier Investments Limited, Salmat Limited, Seven Group Holdings Limited, STW Communications Group Limited, Ten Network Holdings Limited, Wesfarmers Limited and Seven West Media Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

29. EMPLOYEE SHARE PLANS (CONTINUED)

Exempt Employee Share Plan (EESP)

The EESP provides eligible employees the opportunity to acquire an ownership interest in the Company. Non-Executive Directors of the Company are not eligible to participate in the EESP. Eligible employees may be offered up to \$1,000 worth of the Company's ordinary shares each year, provided specific financial and qualitative corporate objectives are met to the satisfaction of the Board. Shares acquired under the offer must remain in the EESP until the earlier of three years after allocation, or termination of employment of the participant.

The Plan Trustee will use funds it receives from the Company to either subscribe to a new issue of shares in the Company on behalf of the participating employees or purchase shares on the ASX on behalf of the participating employees. These shares will be registered in the name of the Plan Trustee on behalf of the EESP participants.

No shares were issued to eligible employees during the period and no shares were purchased by the Trustee on behalf of participants under the Plan.

Deferred Employee Share Plan (DESP)

Shareholders approved the DESP at the Annual General Meeting held on 23 November 1998.

This plan provides eligible employees the opportunity to acquire an ownership interest in the Company. Eligible employees may salary sacrifice a minimum of \$3,000 per annum to acquire ordinary shares in the capital of the Company each year.

Under the rules of the DESP, the Board may impose relevant requirements, being vesting conditions and other conditions before the participant can withdraw shares from the DESP.

When a participating employee's employment ends, they will receive the Company's shares held on their behalf except where relevant requirements have been imposed by the Board and are not met or where an employee has been dismissed as a result of fraudulent or wrongful conduct in which case the Board has the discretion to require forfeiture of any shares under the plan.

No shares were issued to eligible employees during the period and no shares were purchased by the Trustee on behalf of participants under the Plan.

Details of the shares in each plan are as follows:

	EESP	DESP
	Number	Number
Shares held in plan at 30 July 2011	258,929	147,131
Share issued from DRP	7,722	8,894
Shares disposed during the year	(5,079)	(11,538)
Shares held in plan at 28 July 2012	261,572	144,487
	\$	\$
David Jones share price at 28 July 2012	2.40	2.40
Market value of shares	627,773	346,769

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

30. CONSOLIDATED ENTITIES

	Note	Class of Share	Interest Held	
			2012 %	2011 %
Parent entity:				
David Jones Limited	(i)			
Subsidiaries:				
Aherns Holdings Pty Ltd (investor)	(ii)	Ordinary	100	100
Ahern's (Suburban) Pty Ltd (non-operating)	(iii)	Ordinary	100	100
Akitin Pty Limited (investor)		Ordinary	100	100
Helland Close Pty Ltd (liquor licence holder)		Ordinary	100	100
299-307 Bourke Street Pty Ltd (property owner)	(iv)	Ordinary	100	100
David Jones Credit Pty Limited (investor)		Ordinary	100	100
John Martin Retailers Pty Limited (non-operating)		Ordinary	100	100
David Jones Financial Services Limited (financial services)		Ordinary	100	100
David Jones Insurance Pty Limited (financial services)		Ordinary	100	100
David Jones Finance Pty Limited (finance company)		Ordinary	100	100
David Jones (Adelaide) Pty Limited (investor)	(v)	Ordinary	100	100
Buckley & Nunn Pty Limited (investor)		Ordinary	100	100
David Jones Properties (South Australia) Pty Limited (investor)		Ordinary	100	100
David Jones Properties (Victoria) Pty Limited (property owner)		Ordinary	100	100
David Jones Properties (Queensland) Pty Limited (property owner)		Ordinary	100	100
Speertill Pty Ltd (liquor licence holder)		Ordinary	100	100
David Jones Properties Pty Limited (property owner)		Ordinary	100	100
David Jones Employee Share Plan Pty Limited (corporate trustee)		Ordinary	100	100
David Jones Share Plans Pty Limited (corporate trustee)		Ordinary	100	100

Notes:

- (i) David Jones Limited is the ultimate parent entity.
- (ii) All subsidiaries are incorporated in Australia and carry on business in their country of incorporation.
- (iii) Issued capital is owned by Aherns Holdings Pty Ltd.
- (iv) Issued capital is owned by David Jones Finance Pty Limited.
- (v) Issued capital of the entity is owned 50% by David Jones Limited and 50% by David Jones Properties (South Australia) Pty Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

31. RELATED PARTY DISCLOSURES

Transactions between Directors and the Company

From time to time Directors may purchase goods from the Company. These purchases are on the same terms and conditions as those entered into by senior management.

In the ordinary course of business, the Company has paid amounts to Director-related entities for services provided on an arms length basis. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions with non-related entities.

Details of indemnification and insurance of Directors and Officers are disclosed in the Directors' Report.

Interest in controlled entities

Information relating to controlled entities is set out in Notes 5, 25 and 30.

Superannuation plans

The Company contributes to several defined contribution superannuation plans.

All superannuation contributions are made in accordance with the relevant trust deeds and the Superannuation Guarantee Charge.

Other related party transactions

Interest on borrowings between related entities is charged at commercial rates, which are determined at the discretion of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

32. CAPITAL AND FINANCIAL RISK MANAGEMENT

Capital risk management

The Consolidated Entity's key objective when managing capital is to minimise its weighted average cost of capital while retaining loan facilities to pursue growth and capital management opportunities.

In managing its capital structure, the Consolidated Entity also seeks to safeguard its ability to continue as a going concern so that it can continue to provide appropriate returns to shareholders and benefits for other stakeholders.

Total capital of the Consolidated Entity consists of debt, which includes interest bearing liabilities (refer Note 17), cash and cash equivalents (refer Note 8), and equity comprising issued capital, reserves and retained earnings (refer Notes 21, 22 and 23 respectively and the Statement of Changes in Equity).

The capital structure of the Consolidated Entity is monitored using a gearing ratio based on balances at year end. The gearing ratio is calculated as net debt divided by the sum of net debt plus equity. Net debt is calculated as total interest bearing liabilities less cash and cash equivalents and equity is calculated with reference to the amount of equity shown in the Statement of Financial Position. The calculation of the Consolidated Entity's gearing ratio at the balance date of 13.0% (2011: 13.3%) is shown below:

GEARING RATIO	2012	2012	2011	2011
	\$000	%	\$000	%
Net debt	115,470	13.0	120,240	13.3
Equity	775,704	87.0	785,480	86.7
Capital employed	891,174	100.0	905,720	100.0

The Company maintains a Dividend Reinvestment Plan which allows shareholders to invest their returns in the equity of the company.

The Company's policy for dividend payments to shareholders is to maintain a payout ratio of not less than 85% of profit after tax. Franking credits available for distribution after 28 July 2012 are estimated to be \$47.391 million (following payment of the 2012 final dividend).

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

32. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONTINUED)**Financial risk management (continued)**

The Consolidated Entity's key objective of financial risk management is to facilitate growth while limiting its exposure to adverse financial impacts arising from exposures to market, credit and liquidity risks.

By setting and implementing appropriate policies, creating transparent limits on risk exposures, optimising investment decision making and developing analytical capabilities, risk management contributes to the Consolidated Entity's efforts to create shareholder value.

In addition to business risk, the Consolidated Entity recognises four fundamental sources of financial risk:

- (a) Interest rate risk
- (b) Foreign currency risk
- (c) Credit risk
- (d) Liquidity risk

The Consolidated Entity seeks to manage these risks using derivative financial instruments, and by setting appropriate policies and transaction limits for counterparties.

The use of financial derivatives is governed by written policies approved by the Company's Board of Directors, including the Treasury Policy and Delegations Manual.

The Consolidated Entity's Treasury department is responsible for the management of these risks. The level of exposure to the above risks is monitored by the Company's Board of Directors.

A summary of the underlying economic positions as represented by the carrying values and fair values of the Consolidated Entity's financial assets and financial liabilities is shown below:

	CARRYING AMOUNT		FAIR VALUE	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
FINANCIAL ASSETS				
Cash and cash equivalents	20,536	11,703	20,536	11,703
Receivables	16,389	19,637	16,389	19,637
Forward exchange contracts	24	–	24	–
Shares in other corporations	12	12	12	12
Total financial assets	36,961	31,352	36,961	31,352
FINANCIAL LIABILITIES				
Payables	264,595	216,429	264,595	216,429
Current tax liabilities	3,097	18,654	3,097	18,654
Interest bearing liabilities:				
Bank overdraft	6	2,943	6	2,943
Unsecured bank loan	136,000	129,000	135,666	128,648
Forward exchange contracts	819	921	819	921
Interest rate swap contracts	538	488	538	488
Total financial liabilities	405,055	368,435	404,721	368,083

Significant accounting policies in relation to the financial assets and financial liabilities are disclosed in Note 1. Unless otherwise stated, all calculations and methodologies are unchanged from prior reporting periods.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

32. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Fair Value

The Consolidated Entity uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1: Fair value is calculated using quoted prices in active markets

Level 2: Fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: Fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The categorisation of the fair value of the financial instruments disclosed in the Statement of Financial Position is shown below.

	Level 1	Level 2	Level 3	Total
	\$000	\$000	\$000	\$000
2012				
FINANCIAL ASSETS				
Forward exchange contracts	–	24	–	24
Shares in other corporations	–	12	–	12
	–	36	–	36
FINANCIAL LIABILITIES				
Forward exchange contracts	–	819	–	819
Interest rate swap contracts	–	538	–	538
	–	1,357	–	1,357
2011				
FINANCIAL ASSETS				
Forward exchange contracts	–	–	–	–
Shares in other corporations	–	12	–	12
	–	12	–	12
FINANCIAL LIABILITIES				
Forward exchange contracts	–	921	–	921
Interest rate swap contracts	–	488	–	488
	–	1,409	–	1,409

(a) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates.

The Consolidated Entity's exposure to the risk of changes in market interest rates relates primarily to unsecured bank loans.

The Consolidated Entity's policy is to manage its interest rate risk by entering into interest rate swap contracts in respect of its floating rate debt. The Consolidated Entity had \$72.0 million (2011: nil) of notional principal interest rate swaps that were in place during the financial year ended 28 July 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

32. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

(a) Interest rate risk (continued)

The table below shows the level of exposure to interest rate risk at balance date for financial assets and financial liabilities with a variable rate of interest. The weighted average interest rates shown below are inclusive of margins applicable to the underlying variable rate borrowings.

	Interest Bearing	Non Interest Bearing	Total	Average Interest Rate
2012	\$000	\$000	\$000	% Per annum
FINANCIAL ASSETS				
Cash and cash equivalents	12,451	8,085	20,536	3.5
	12,451	8,085	20,536	
FINANCIAL LIABILITIES				
Bank overdraft	6	–	6	1.1
Unsecured bank loan	64,000	–	64,000	5.2
	64,006	–	64,006	
2011				
FINANCIAL ASSETS				
Cash and cash equivalents	–	11,703	11,703	N/A
	–	11,703	11,703	
FINANCIAL LIABILITIES				
Bank overdraft	2,943	–	2,943	10.2
Unsecured bank loan	129,000	–	129,000	5.4
	131,943	–	131,943	

Interest rate sensitivity analysis

The table below shows the effect on profit before tax and equity, if interest rates at balance date had been 100 basis points (bps) higher or lower with all other variables remaining constant.

	Profit before Tax		Equity	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Interest rates 100bps higher: increase/(decrease) in:	(550)	(1,319)	766	717
Interest rates 100bps lower: increase/(decrease) in:	550	1,319	(705)	(688)

A sensitivity interval of 100bps has been selected based on an analysis of historical rates and market expectations of the direction of future interest rates in Australia. A 100bps upward shift would move short term interest rates at balance date from 5.2% to 6.2% (2011: 5.4% to 6.4%), and from 5.2% to 4.2% for an equivalent downward shift (2011: 5.4% to 4.4%). This sensitivity interval of 100bps is considered reasonable in view of the current volatility in the financial markets.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

32. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONTINUED)**Financial risk management (continued)****(b) Foreign currency risk**

Foreign currency risk refers to the risk that the value or the cash flows arising from a financial commitment, or recognised asset or liability will fluctuate due to changes in foreign currency rates.

The Consolidated Entity has exposure to movements in foreign exchange rates in relation to forecast purchases of imported goods denominated in foreign currencies. The Consolidated Entity enters into forward foreign exchange contracts to hedge its foreign currency risk. Currencies utilised to purchase imported goods are denominated in Euros, United States Dollars, Hong Kong Dollars and Pounds Sterling.

It is the Consolidated Entity's policy to negotiate the terms of the hedge derivative instrument to match the terms of the hedged item so as to maximise hedge effectiveness. All forward currency contracts are in the same currency as the hedged item.

At balance date, the Consolidated Entity had hedged 97% (2011: 96%) of its forecast purchases of imported goods denominated in foreign currencies.

The following table sets out the gross value to be paid under foreign currency contracts and the weighted average contracted exchange rates of contracts outstanding at balance date. All contracts mature by July 2013. The information shown is for the Consolidated Entity.

	Exchange Rate		Australian Dollar Equivalent	
	2012	2011	2012	2011
Gross Value Payable under Foreign Currency Contracts:			\$000	\$000
Buy Euros	0.7894	0.7216	12,897	15,086
Buy United States Dollars	1.0208	1.0327	7,415	4,737
Buy Hong Kong Dollars	–	7.7557	–	97
Buy Pounds Sterling	0.6452	0.6269	1,551	469
			21,863	20,389

As these contracts are hedging firm purchase commitments, any unrealised gains and losses on the contracts, together with the cost of the contracts, will be recognised in the Financial Statements at the time the underlying transaction occurs. The mark to market loss on the contracts at balance date was \$0.795 million (2011: \$0.920 million loss).

Foreign currency exchange rate sensitivity analysis

The table below shows the effect on both the profit before tax and equity if foreign exchange rates at balance date had been 10% higher or lower with all other variables remaining constant.

Foreign Currency Exchange Rate Sensitivity Analysis	Profit before Tax		Equity	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Foreign exchange rates 10% higher: increase/(decrease) in:	61	81	(1,903)	(1,748)
Foreign exchange rates 10% lower: increase/(decrease) in:	(75)	(99)	2,328	2,140

A sensitivity interval of 10% is considered reasonable based on an analysis of historical exchange rate movements over the last five years, and expectations of potential future movements in exchange rates.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

32. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial Risk Management (continued)

(c) Credit risk

Credit risk is the risk that a contracting entity or counterparty will not complete its obligations under a financial instrument and cause the Consolidated Entity to incur a financial loss. The Consolidated Entity has exposure to institutional credit risk on:

- i) short term cash deposits;
- ii) foreign exchange contracts; and
- iii) interest rate swap contracts.

Institutional credit risk

Institutional credit risk arises principally from short term deposits, derivative financial instruments and other receivables between the Consolidated Entity and a counterparty.

Unlike consumer credit risk, institutional credit risk is characterised by a lower loss frequency but higher severity.

Under the Company's Treasury policy, credit risk on short term deposits and derivative hedge instruments is mitigated, as counterparties are required to be pre-approved financial institutions, with a minimum Standard & Poor's long term credit rating of A. Dealing limits are also applied to each counterparty.

The maximum exposure to credit risk of the Consolidated Entity at balance date, by class of financial asset is represented by the carrying amount of the financial assets presented in the Statement of Financial Position and notes to the Financial Statements.

The Consolidated Entity does not have any significant credit risk exposure to a single or group of customers or institutions. At 28 July 2012, the Consolidated Entity had 100% of its aggregate institutional credit risk spread over four counterparties, with a Standard & Poor's long term credit rating of A to AA.

(d) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as and when they fall due.

The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

Various factors are considered by the Consolidated Entity in determining its liquidity needs including economic and financial market conditions, the retail industry cycle, seasonality in business operations, growth in business segments, cost and availability of alternative liquidity sources.

The Consolidated Entity's Treasury Policy requires it to have readily accessible funding arrangements in place, and to maintain a minimum liquidity reserve of \$40 million at all times in the form of undrawn standby facilities. The balance of the liquidity reserve at the balance date was \$303.720 million (2011: \$247.542 million).

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

32. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

(d) Liquidity risk (continued)

The contractual maturities of financial liabilities are set out below:

	Maturing in:	0 – 6 Months	6 – 12 Months	Over 1 to 5 Years	Total
		\$000	\$000	\$000	\$000
2012					
FINANCIAL LIABILITIES					
Payables		264,595	–	–	264,595
Bank overdraft		6	–	–	6
Unsecured bank loan		14,483	3,208	136,570	154,261
Forward exchange contracts		15,291	6,572	–	21,863
Interest rate swap contracts		303	130	105	538
		294,678	9,910	136,675	441,263
2011					
FINANCIAL LIABILITIES					
Payables		216,429	–	–	216,429
Bank overdraft		3,070	–	–	3,070
Unsecured bank loan		3,488	3,451	130,138	137,077
Forward exchange contracts		15,567	4,822	–	20,389
Interest rate swap contracts		97	252	139	488
		238,651	8,525	130,277	377,453

The cash flows presented above are contractual and calculated on an undiscounted basis. They are based on interest rates at balance date and may not therefore reconcile to the carrying amounts shown in the Statement of Financial Position. The foreign exchange and interest rate swap contracts are classified as being effective hedging instruments and therefore all cash flow movements will be recognised in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011

33. PARENT ENTITY DISCLOSURES

As at, and throughout the 52 week period ending 28 July 2012, the parent company of the Group was David Jones Limited.

	DAVID JONES LIMITED	
	2012	2011
	\$000	\$000
RESULT OF THE PARENT ENTITY		
Profit for the period	98,690	163,216
Other comprehensive income	(22)	351
Total comprehensive income for the period	98,668	163,567
FINANCIAL POSITION OF THE PARENT ENTITY		
AT PERIOD END		
Current assets	311,815	326,733
Total assets	1,324,213	1,308,943
Current liabilities	552,395	524,854
Total liabilities	586,291	558,791
TOTAL EQUITY OF THE PARENT ENTITY		
Contributed equity	547,028	525,105
Share based payments reserve	75,283	75,633
Cash flow hedge reserve	(622)	(644)
Retained earnings	116,233	150,059
Total Equity	737,922	750,153

Parent entity contingent liabilities

Contingent liabilities in relation to the Company are disclosed in Note 25.

Parent entity capital commitments for acquisition of plant and equipment

Capital commitments for the acquisition of plant and equipment in relation to the Company are disclosed in Note 26.

34. EVENTS SUBSEQUENT TO REPORTING DATE

Dividends

Dividends declared by the Company after 28 July 2012 are disclosed in Note 6.

DIRECTORS' DECLARATION

In the opinion of the Directors:

- (a) the Financial Statements, notes and the additional disclosures in the Directors' Report designated as audited, of the Consolidated Entity, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 28 July 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and Corporations Regulations 2001.
- (b) the Financial Statements and notes also comply with International Financial Reporting Standards as disclosed in note 1.2.
- (c) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.
- (d) as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 25 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.
- (e) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ending 28 July 2012.

Signed in accordance with a resolution of the Directors:



Robert Savage
Chairman

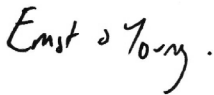


Paul Zahra
Chief Executive Officer and Managing Director

Sydney, 19 September 2012

Auditor's Independence Declaration to the Directors of David Jones Limited

In relation to our audit of the financial report of David Jones Limited for the 52 weeks ended 28 July 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, appearing to be 'G. McKenzie'.

Graeme McKenzie
Partner
19 September 2012

Independent auditor's report to the members of David Jones Limited

Report on the financial report

We have audited the accompanying financial report of David Jones Limited, which comprises the consolidated statement of financial position as at 28 July 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the 52 weeks then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is set out on the previous page and which forms part of the Directors' Report.

Opinion

In our opinion:

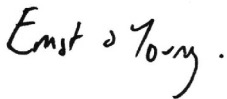
- a. the financial report of David Jones Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 28 July 2012 and of its performance for the 52 weeks ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* disclosed in Note 1.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the 52 weeks ended 28 July 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of David Jones Limited for the 52 weeks ended 28 July 2012 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, appearing to be 'G. McKenzie'.

Graeme McKenzie
Partner
Sydney
19 September 2012