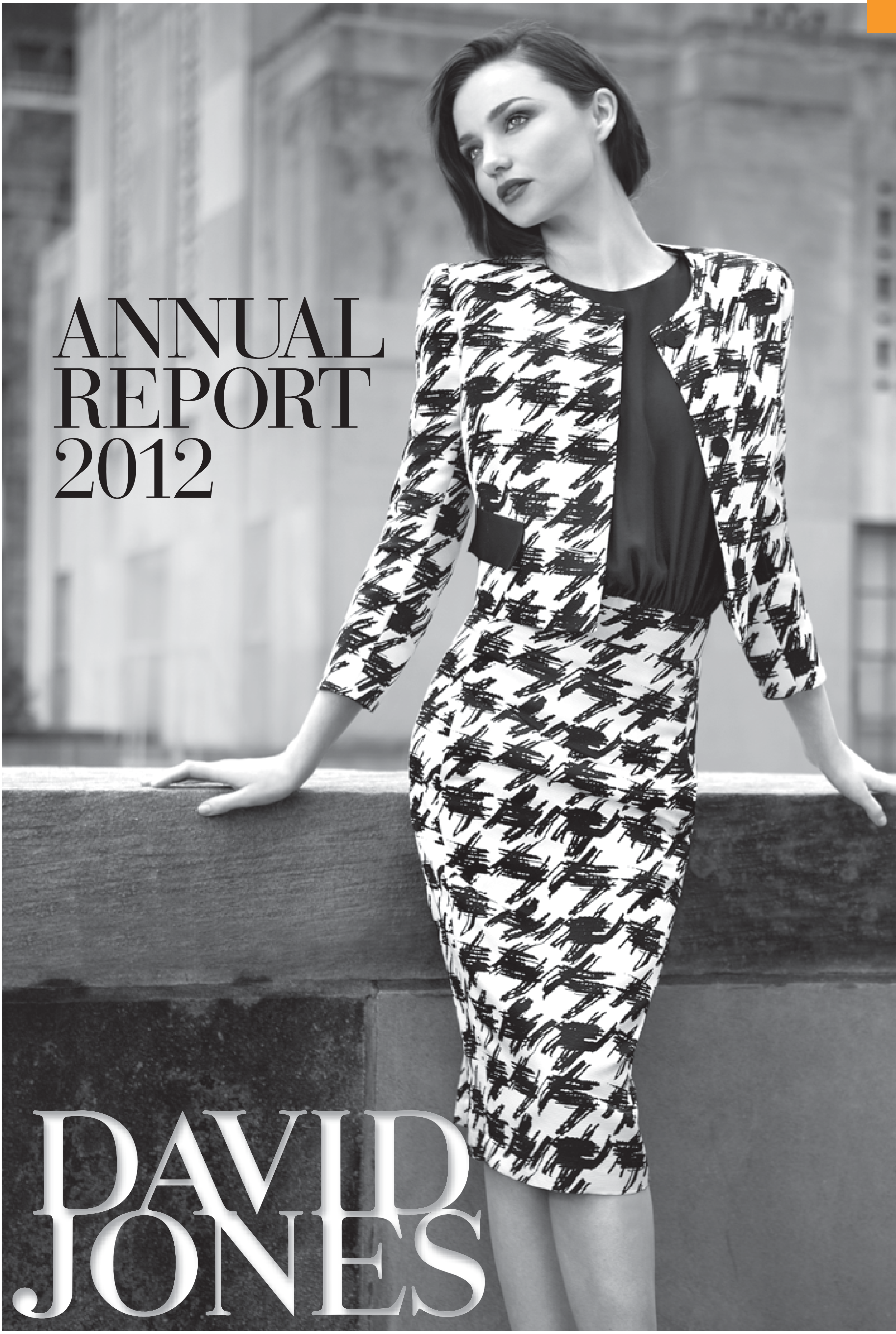


DAVID JONES LIMITED ABN 75 000 074 573 ACN 000 074 573

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## GLOSSARY OF TERMS USED IN THE ANNUAL REPORT

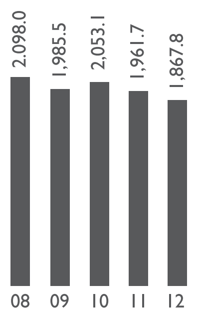
**AASB** Australian Accounting Standards Board
**American Express** American Express Australia Limited
**ASX** Australian Securities Exchange
**Board** The Board of Directors of David Jones Limited
**CODB** Cost of Doing Business
**Company** David Jones Limited
**Corporations Act** *The Corporations Act 2001* (Cth)
**Consolidated Entity** David Jones Limited and its controlled entities, as listed in note 30 to the financial statements
**David Jones** David Jones Limited
**DRP** Dividend Reinvestment Plan
**EBIT** Earnings Before Interest and Tax
**EPS** Earnings Per Share
**FY** Financial Year
**IFRS** International Financial Reporting Standards
**NPAT** Net Profit After Tax
**OH&S** Occupational Health and Safety
**Trust** David Jones Incentive Plan Trust

## 2012 ANNUAL GENERAL MEETING

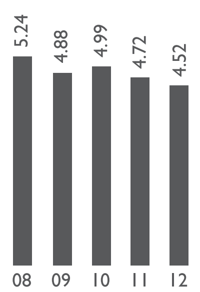
The Annual General Meeting will be held on Friday 23 November 2012 at 10.00 a.m. at On Seven at David Jones, Level 7, 86–108 Castlereagh Street, Sydney, New South Wales.

The Notice of Meeting and Proxy Form are separate items accompanying this 2012 Annual Report.

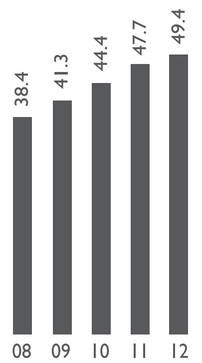
| | FY2012 $m | FY2012 % of sales | FY2011 $m | FY2011 % of sales |
|---|---|---|---|---|
| Sales | **1,867.8** | | 1,961.7 | |
| Gross Profit | **699.8** | **37.5%** | 767.3 | 39.1% |
| Cost of doing business | **594.9** | **31.9%** | 568.5 | 29.0% |
| **Department Stores EBIT** | **104.9** | **5.6%** | 198.8 | 10.1% |
| Financial Services EBIT | **49.4** | | 47.7 | |
| **Total EBIT** | **154.4** | **8.3%** | 246.5 | 12.6% |
| **NPAT** | **101.1** | **5.4%** | 168.1 | 8.6% |



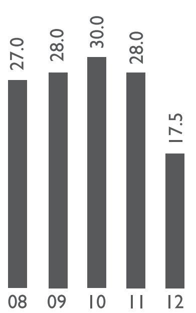

**Five year sales**
Total sales ($ millions)



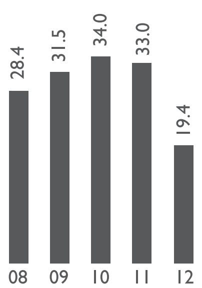

**Sales per square metre**
($ thousands)




**Financial Services EBIT**
($ millions)




**Dividend history**
(cents per share (cps))

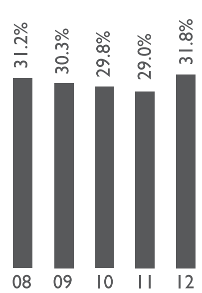



**EPS**
(cps)

Earnings used refers to underlying earnings after removing 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.


**NPAT**
($ millions)

NPAT refers to underlying net profit after tax after removing 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.




**CODB**
(Percentage of sales)

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

Robert Savage **Chairman**

Paul Zahra **Chief Executive Officer & Managing Director**

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.

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.

### 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.

### 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.

## 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.

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.

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

## 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.

## 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 $000** | 2011 $000 | 2010[1] $000 | 2009[2] $000 | 2008[3] $000 |
|---|---|---|---|---|---|
| **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

# EXECUTIVE COMMITTEE

**PAUL ZAHRA**
Chief Executive Officer

**BRAD SOLLER**
Chief Financial Officer

**DONNA PLAYER**
Group Executive
Merchandise

**SACHA LAING**
Group Executive
Marketing and Financial Services

**CATE DANIELS**
Group Executive
Operations

**ANTONY KARP**
Group Executive
Retail Services

**PAULA BAUCHINGER**
Group Executive
Human Resources

**DAVID ROBINSON**
Executive
Omni Channel & Integration

**MATTHEW DURBIN**
Executive
Strategic Planning

The Executive Committee is currently comprised of nine members all of whom are pictured on this page. The role of the Executive Committee is to implement group policy, manage the corporate processes and review strategy and resources.

# CORPORATE GOVERNANCE STATEMENT

## 1 INTRODUCTION

This statement sets out the key corporate governance principles adopted by the Directors in governing David Jones and reflects the corporate governance policies and procedures which applied during the year ended 28 July 2012. The Company continues to monitor and review its corporate governance policies and procedures.

## 2 DAVID JONES' APPROACH TO CORPORATE GOVERNANCE

### 2.1 Framework and approach to corporate governance and responsibility

The Board has the responsibility for ensuring David Jones is properly managed so as to protect and enhance shareholders' interests in a manner that is consistent with the Company's responsibility to meet its obligations to all stakeholders.

For this reason, the Board is committed to maintaining the highest standards of corporate governance across the David Jones Consolidated Entity.

The Board believes that corporate governance is about having a set of values and behaviours that underpin the Company's everyday activities – values and behaviours that ensure transparency, risk management, accountability, value creation, fair dealing and protection of the interests of stakeholders. Consistent with this belief, the Board's approach is to consider corporate governance within the broader framework of corporate responsibility and regulatory oversight.

The Board has adopted practices as appropriate to ensure David Jones remains at the forefront in protecting stakeholder interests which are consistent with the "Corporate Governance Principles and Recommendations" (ASX Recommendations) published by the ASX Corporate Governance Council and the Corporations Act 2001 (Cth) (Corporations Act).

The Board's approach to corporate governance is guided by the principles and practices that are in stakeholders' best interests as well as ensuring full compliance with legal and regulatory requirements.

### 2.2 Compliance with the ASX Recommendations

The ASX Listing Rules require listed companies to include in their annual report a statement disclosing the extent to which they have followed the ASX Recommendations in the reporting period. Listed companies must identify the recommendations that have not been followed and provide reasons for the company's decision.

As detailed in this statement, David Jones considers that its governance practices comply with the ASX Recommendations. A checklist setting out each of the ASX Recommendations and the location of the Company's associated disclosure is shown on pages 24 to 25.

This statement and copies of the Company's policies, charters and codes relevant to corporate governance are available on the Company's website at www.davidjones.com.au, located in the Corporate Governance section.

If you are reading this statement in electronic format, copies of the Company's policies, charters and codes may be accessed via the hyperlinks below:

- Board Charter
- Remuneration and Nominations Committee Charter
- Audit Committee Charter, including Risk Management and Internal Compliance and Control Systems Policy
- Code of Ethics and Conduct
- Diversity Policy
- Share Trading Policy
- Continuous Disclosure Policy
- Shareholder Communications Policy

## 3 THE BOARD OF DIRECTORS

### 3.1 Membership and expertise of the Board

The Board has a broad range of relevant skills, experience and expertise to meet its objectives. The composition of the current Board with details of each Director's term of office, skills, qualifications, experience and special responsibilities is set out on pages 38 to 39 of this Annual Report.

### 3.2 Board role and responsibility

The Board is responsible for protecting the rights and interests of shareholders and is accountable to them for the management of David Jones. The Board Charter clearly defines the matters that are reserved for the Board and those that the Board has delegated to management.

In summary, the Board's accountabilities and responsibilities include:

– setting the direction, financial objectives and goals for management;
– reviewing and approving the annual budget and strategic plan;
– monitoring management and financial performance against the Company's financial objectives and goals;
– reviewing and approving the strategic allocation of capital including major capital projects and property leases;
– approving capital management initiatives and major financing facilities;
– evaluating the performance and determining the remuneration of the Chief Executive Officer and Managing Director, senior managers and the Board (within the shareholder approved limit);
– ensuring the appropriate risk management systems, internal controls, reporting systems and compliance frameworks are in place and operating effectively;
– ensuring there are plans and procedures for recruitment, training, remuneration and succession planning for senior managers;
– defining Board competencies, evaluating Board performance and planning Board succession;
– considering and approving David Jones' interim and full year financial statements;
– selection, appointment and removal of the Chief Executive Officer and Managing Director; and
– ensuring there are appropriate standards of corporate governance and ethical behaviour.

Responsibility for the day-to-day management and administration of David Jones is delegated by the Board to the Chief Executive Officer and Managing Director, assisted by the Executive Committee.

The Chief Executive Officer and Managing Director manages David Jones in accordance with the strategy, plans and delegations approved by the Board.

The Board Charter is available in the Corporate Governance section of the David Jones website.

### 3.3 Board size, composition and mix of skills

The Board determines its size and composition, subject to the limits imposed by David Jones' constitution, using the following principles:

– the Board is to be comprised of both executive and non-executive Directors, with a majority of non-executive directors who satisfy the criteria for independence;
– the Directors shall be from different backgrounds with complementary skills and experience;
– the Chairman must be an independent Non-executive Director;
– the same individual must not exercise the roles of Chairman or Deputy Chairman and Chief Executive Officer and Managing Director; and
– all Directors shall bring independent judgement to bear in decision-making.

In addition to a commitment to gender diversity, the Board is dedicated to ensuring that its Directors continue to reflect a mix of different backgrounds, knowledge, skills and experience in the areas of retailing, financial services, property management and development, marketing, human resources, information technology, finance and law. The process for the nomination and appointment of new Directors is described in section 3.10 below.

David Jones' Board currently comprises six independent Non-executive Directors (including the Chairman and Jane Harvey who was appointed to the Board on 3 October 2012) and two Executive Directors, being the Chief Executive Officer and Managing Director, and Executive Director.

### 3.4 The selection and role of the Chairman

The Chairman is selected by the Board from the Non-executive Directors.

The Chairman's role includes:

– providing leadership to the Board and to David Jones;
– ensuring efficient organisation and conduct of the Board;
– monitoring Board performance annually;
– guiding the agenda and conduct of Board meetings;
– promoting consultative and respectful relations between Directors, and between the Board and management; and
– chairing shareholder meetings.

The current Chairman, Robert Savage, is an independent Non-executive Director appointed by the Board. He has been a Director of David Jones since October 1999, Chairman since July 2003 and is a member of the Remuneration and Nominations Committee and was a member of the Property Committee until 1 September 2012.

The current Deputy Chairman, Peter Mason, is an independent Non-executive Director appointed by the Board. He has been a Director of David Jones since November 2007, was a member of the Audit Committee from November 2007 to June 2012, Deputy Chairman since May 2012 and is the Chairman of the Remuneration and Nominations Committee.

### 3.5 Directors' independence

It is the Board's view that each of its Non-executive Directors is independent. The Board has adopted specific principles in relation to Non-executive Directors' independence in light of the ASX Recommendations guide as to relationships that affect independence. A Non-executive Director is considered to be independent where they are not a member of management and:

– are not a substantial shareholder of David Jones or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;

– within the last three years have not been employed in an executive capacity by David Jones or another David Jones Group member, or been a Director after ceasing to hold any such employment;

– within the last three years have not been a principal of a material professional adviser or material consultant to David Jones (or another David Jones Group member), or a director, officer, employee or consultant materially associated with the service provided by a material professional adviser or material consultant to the Company;

– are not a material supplier or customer of David Jones or other David Jones Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or material customer; and

– have no material contractual relationship with David Jones or another David Jones Group member other than as a Director of the Company.

Materiality for these purposes is assessed on both qualitative and quantitative bases having regard to the specific circumstances, including among other things the:

– strategic importance to David Jones' business of the goods or services purchased or supplied by David Jones;

– nature of the goods and services; and

– nature and value of the transaction to David Jones and the other third party to the transaction.

The Board has undertaken an assessment of the independence of each of its Non-executive Directors, and, as noted above, has formed the view that each of its Non-executive Directors is independent.

Philippa Stone is a partner at Freehills, a law firm which provides certain legal services to the Company. The legal services provided by Freehills are not considered material having regard to the principles above. The Board is satisfied that Ms Stone's role with Freehills does not materially interfere with the independent exercise of her judgment as a Non-executive Director of David Jones.

Peter Mason is the chairman of AMP Limited (AMP). The Company has five commercial leases with certain AMP subsidiaries. Peter Mason is not directly involved in any of these dealings on behalf of AMP. The Board is satisfied that Mr Mason's role with AMP does not materially interfere with the independent exercise of his judgment as a Non-executive Director of David Jones.

Steven Vamos is a director of Telstra Corporation Limited (Telstra). While Telstra is the predominant supplier for the Company's telecommunication needs, the services provided by Telstra are not material having regard to the principles above. The Board is satisfied that Mr Vamos' role with Telstra does not materially interfere with the independent exercise of his judgment as a Non-executive Director of David Jones.

### 3.6 Avoidance of conflicts of interest by a Director

In accordance with the Corporations Act, any Director with a material personal interest in a matter being considered by the Board must not be present when the matter is being considered and may not vote on the matter. Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of David Jones. The Board has developed procedures to assist Directors to disclose potential conflicts of interest. Where a significant conflict exists, the Director concerned declares their interests in those dealings to the Board and takes no part in decisions or discussions relating to them.

### 3.7 Meetings of the Board and their conduct

The full Board currently holds not less than eight scheduled meetings per year, plus strategy and other additional meetings as necessary to address any specific significant matters that may arise. The agenda for scheduled Board meetings incorporates standing items including the Chief Executive Officer and Managing Director's report, financial reports, Board Committee reports, strategic matters, governance and compliance. Executives are regularly involved in Board discussions and Directors have other opportunities, including visits to stores and business functions, for contact with a wider group of employees.

A meeting of Non-executive Directors only is also held on the same date as each scheduled Board meeting to discuss the operation of the Board and a range of other matters.

The number of Board meetings, Non-executive Directors' meetings and Board Committee meetings held during the year ended 28 July 2012 is set out in section 4 below.

### 3.8 Succession planning

The Board plans succession of its own members in conjunction with the Remuneration and Nominations Committee.

The Board utilises a Board Skills Assessment Matrix, developed in conjunction with an external consultant, to accurately assess each Director's, as well as the Board's, overall strengths when it comes to skills, expertise and experience. By using the matrix, Board members can identify and isolate which specific skills and expertise new Board members should possess.

The Board Skills Assessment Matrix sets out the requisite skills, expertise, experience and other desirable attributes for the Board, including industry experience, geographical diversity, Board Committee succession requirements and specialist experience.

Each Board member completes an individual skills assessment matrix and is interviewed by external consultants to ensure each director's skills assessment matrix accurately reflects their skills, expertise and experience. Each Director's individual assessments are then included in the Board Skills Assessment Matrix. This enables the Board to identify where it is strong, where it has gaps, the skills that need to be targeted and its priorities when recruiting new members.

The Board is also responsible for succession planning for the Chief Executive Officer and Managing Director, and for ensuring succession plans for the Chief Financial Officer and other senior managers.

### 3.9 Review of performance

(a) The Board and Directors

The Board has in place formal processes to review its performance and that of its Chairman annually and the performance of its other individual directors every three years. In line with the Company's continuous improvement focus, the performance evaluation process of the Board has been benchmarked against the evaluation practices of Boards in other ASX listed companies. As a result, the core elements of the evaluation process have been further enhanced and are summarised below:

- the performance evaluation of the Board and Chairman is comprised of structured interviews, written surveys and from time to time involves assistance of an independent adviser;
- a self assessment process with respect to the Board's overall performance is undertaken by all Directors for review by the Chairman, and an assessment of the Chairman is completed by the Deputy Chairman and other Directors. The review incorporates the performance of the Board as a whole relative to the Board Charter. During this process, any particular issues concerning the performance of individual Directors or Board Committees will also be raised;
- integral to the process is feedback from key stakeholders and senior management which is obtained through an interview process;
- the Chairman conveys the results of the performance evaluation process to each Director and the Board and these results form the basis of an action plan designed to address performance improvement opportunities; and
- on a three yearly basis, each Director completes a written survey scoring the individual performance and contribution of each other Director as well as themselves. This information is collated and the results are communicated by the Chairman to each Director.

The evaluation of individual Board Committees is carried out as and when needed.

An independent review of the Board, its Committees and members was completed in November 2011.

The performance of Board Committees is discussed under section 4.2.

(b) Senior executives

All senior executives joining the Company receive induction training which is tailored to their specific role.

All induction training covers as a minimum the Company's organisational structure, history and financial position, its corporate policies, management strategies and delegations of authority.

All senior executives undergo a performance and development review on an annual basis. This appraisal process was completed in FY2012 in accordance with the process set out below:

- at the beginning of each financial year, each senior executive is given a set of key performance criteria against which they will be measured. This criteria includes both financial and non-financial performance measures;
- at the end of each financial year, all senior executives complete a self-assessment questionnaire prior to meeting with their manager to discuss their performance over the previous year;
- upon completion of the performance appraisal meeting, each senior executive is given a numerical rating and a development plan is agreed by the parties.

### 3.10 Nomination and appointment of new Directors

Recommendations for nominations of new Directors are made by the Remuneration and Nominations Committee and considered by the Board as a whole.

The agreed process for the appointment of Non-executive Directors to the Board is reviewed at the time the need for a new Director is identified. The Remuneration and Nominations Committee reviews the range of skills, experience and expertise on the Board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience. This is undertaken through review of the Board Skills Assessment Matrix developed as set out in section 3.8 of this Statement. For the purpose of objectivity, the selection process is supported throughout by independent consultants.

Prior to appointment or being submitted for re-election, non-executive directors acknowledge to the Company that they will have sufficient time to meet what is expected of them. Existing Non-executive Directors inform the chair before accepting any new appointments as directors.

The Remuneration and Nominations Committee reviews and makes recommendations for Board approval in respect of the appointment, contract terms, and termination of the Chief Executive Officer and Managing Director.

It also provides the Board with the opportunity to review the appointment or termination of any executive reporting to the Chief Executive Officer and Managing Director, and the Company Secretary, prior to implementation.

### 3.11 Directors' orientation and education

Newly appointed Directors receive a tailored orientation program that aims to provide each director with a comprehensive understanding of all key aspects of David Jones.

New Directors are provided with an information pack that comprises governance policies, business information, Board and Committee charters, Board principles and key Company policies. Additionally, the new Director attends a series of structured Executive Committee information sessions that are led by each function's Group Executive.

Board meetings regularly include sessions on recent developments in governance and corporate matters and formal presentations by industry and professional bodies. The Board also undertakes regular store visits and may request for meetings to be arranged with major shareholders and key suppliers.

### 3.12 Retirement and election of Directors

The constitution of David Jones specifies that all Directors (with the exception of the Chief Executive Office and Managing Director) must retire from office no later than the third Annual General Meeting following their last election. Where eligible, a Director may stand for re-election.

### 3.13 Board access to information and advice

All Directors have unrestricted access to Company records and information and receive regular detailed financial and operational reports from management to enable them to carry out their duties.

The Board has adopted a formal policy whereby the Directors may, subject to the Chairman's consent which may not be unreasonably withheld or delayed, individually or collectively obtain independent professional advice, at the expense of David Jones, in the furtherance of their duties as Directors of the Company.

## 4 BOARD COMMITTEES

### 4.1 Board committees and membership

To assist in the execution of its responsibilities, the Board has in place two Board committees comprising a Remuneration and Nominations Committee and an Audit Committee. (Other committees may be established from time to time to consider matters of special importance).

Personnel and remuneration matters have been delegated to the Remuneration and Nominations Committee for review.

In general, the review of financial reporting, financial risk management, audit and compliance matters has been delegated to the Audit Committee (except in relation to material matters which are considered by the full Board).

Up until 1 September 2012, property related matters have been delegated to the Property Committee for review and consideration due to the substantial documentation involved, and the detail and complexity of issues. 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.

The members of the Remuneration and Nominations Committee are:

Reginald Clairs AO (Chairman until 29 February 2012)
Peter Mason (Chairman from 26 April 2012)
Katie Lahey (until 5 June 2012)
Robert Savage AM
Steven Vamos (from 1 September 2012)

The members of the Audit Committee are:

John Harvey (Chairman)
John Coates AC (until 3 May 2012)
Peter Mason AM (until 5 June 2012)
Philippa Stone
Steven Vamos (from 5 June 2012)

On 3 October 2012, Jane Harvey was appointed to the Board of David Jones and a member of the Audit Committee.

Until 1 September 2012, the members of the Property Committee were:

John Coates AC (Chairman until 3 May 2012)
Robert Savage AM
Philippa Stone

The qualifications of each member are set out on pages 38 to 39 of this Annual Report.

The number of Board meetings, Remuneration and Nominations Committee, Audit Committee and Property Committee meetings held during the year ended 28 July 2012 and each member's attendance is set out in the following table.

| | BOARD | | AUDIT COMMITTEE | | REMUNERATION & NOMINATIONS COMMITTEE | | PROPERTY COMMITTEE | |
|---|---|---|---|---|---|---|---|---|
| DIRECTOR | Meetings held while a director | Number attended | Meetings held while a director | Number attended | Meetings held while a director | Number attended | Meetings held while a director | Number attended |
| Robert Savage AM | 8 | 8 | 4 | 4[1] | 3 | 2[2] | 3 | 2[2] |
| Peter Mason AM | 8 | 8 | 3 | 3 | 2 | 2 | – | – |
| Paul Zahra[3] | 8 | 8 | – | – | – | – | – | – |
| John Harvey | 8 | 7[2] | 4 | 4 | – | – | – | – |
| Philippa Stone | 8 | 8 | 4 | 4 | – | – | 3 | 3 |
| Steven Vamos | 2 | 2 | 1 | 1 | – | – | – | – |
| John Coates AC | 6 | 6 | 3 | 2[2] | – | – | 3 | 3 |
| Stephen Goddard[3] | 8 | 8 | – | – | – | – | – | – |
| Reginald Clairs AO | 4 | 4 | 2 | 2[1] | 2 | 2 | – | – |
| Katie Lahey | 7 | 7 | 4 | 1[1] | 3 | 3 | – | – |

[1] Attended on an ex-officio basis

[2] Absent from meeting due to illness or approved leave

[3] Executive Directors are not members of Board Committees but attended Committee meetings as required

### 4.2 Committee charters

The roles and responsibilities of each Committee are set out in the Committee charters. Copies of the Committee charters are available in the Corporate Governance section of the David Jones website.

Each Committee is entitled to the resources and information it requires, including direct access to employees and advisers. The Chief Executive Officer and Managing Director, senior executives and certain other employees are invited to attend Committee meetings (subject to the overriding principle that no member of management will be directly involved in deciding their own remuneration). All Directors receive copies of all Committee papers and meeting minutes, and can attend all Committee meetings.

Committee members are chosen for the skills, experience and other qualities they bring to the Committees.

As soon as possible following each Committee meeting, the Board is given a verbal report by the Committee Chairman.

All matters determined by Committees are submitted to the full Board as recommendations for Board decision. Minutes of Committee meetings are tabled at a subsequent Board meeting.

The performance of Committees is discussed and reviewed initially within each Committee and then reviewed as part of the Board's performance review in accordance with section 3.9. The performance of each member of the Committees is evaluated as part of the performance review of each Director.

### 4.3 Remuneration and Nominations Committee

The role of the Remuneration and Nominations Committee is documented in a charter that has been approved by the Board and is reviewed on an annual basis.

The Committee is comprised of three independent Non-executive Directors.

The objectives of the Committee are to assist the Board in ensuring David Jones has:

- a Board of effective composition, size and commitment to adequately discharge its responsibilities and duties;
- remuneration policies and practices that are aligned with David Jones' strategy and objectives; and
- fair and responsible remuneration of Directors and executives, having regard to the performance of David Jones, the performance of the executives and the general remuneration environment.

The Committee's responsibilities in connection with remuneration include:

- the review and recommendation for shareholder approval of Non-executive Director remuneration;
- the review of, and recommendation to the Board on, any annual payments to be made to Executive Directors under the Company's Short-Term Incentive (STI) Scheme and Long-Term Incentive (LTI) Plan;
- the review of and recommendation to the Board on the remuneration of the Chief Executive Officer and Managing Director and the terms of the Chief Executive Officer and Managing Director's employment contract;
- approval, on the recommendation of the Chief Executive Officer and Managing Director, of the remuneration of the members of the Executive Committee, including the terms of their employment contracts;
- the review of, and recommendation to the Board on, whether an appropriate balance exists between fixed, short-term and long-term incentive components of remuneration;
- the review of, and recommendation to the Board on, the nature and composition of short-term and long-term incentive arrangements with specific emphasis on senior executives reporting to the Chief Executive Officer and Managing Director; and
- the review and recommendation to the Board on any annual payments to be made under any incentive arrangements.

The Committee's responsibilities in connection with nominations include to:

- conduct searches for new Board members, including the Chief Executive Officer and Managing Director, and recommend preferred candidates to the Board;
- recommend required Board competencies and the number and profiles of Directors;
- assess from time to time the extent to which the required competencies are represented on the Board;
- ensure that succession plans are in place to maintain the required competencies, and the number and profiles of the Board members;
- review succession plans for the Chief Executive Officer and Managing Director, Chairman and each of the Board sub committees' chairmen ;
- assist the Chairman as required to evaluate the performance of the Board, its Committees, and individual members, including the performance of the Chief Executive Officer and Managing Director;
- make recommendations to the Board in relation to the appointment or separation of the Company Secretary or any direct reports to the Chief Executive Officer and Managing Director;
- ratify appointments to David Jones' Executive Committee; and
- review and assess succession plans for executive positions reporting to the Chief Executive Officer and Managing Director.

The Committee has access to other Directors, members of senior management and specialist advisers as it may require.

The Committee has engaged external advisers during the year on matters of remuneration. All advisers are independent and were engaged solely on the basis of their expertise in the relevant field.

### 4.4 Audit Committee

The role of the Audit Committee is documented in a charter that has been approved by the Board and is reviewed on an annual basis.

The objectives of the Audit Committee are to provide advice and assistance to the Board to:

- safeguard the integrity of financial reporting;
- make timely and balanced disclosure;
- recognise and ensure risk is appropriately managed; and
- oversee and assess the effectiveness of the Company's risk management and internal control system.

The Audit Committee comprises four independent Non-executive Directors (including Jane Harvey who was appointed on 3 October 2012) and the Chairman of the Board sits on the Audit Committee in an ex officio capacity. The Committee has appropriate financial expertise and all members have a sound knowledge of the industry in which David Jones operates. The Committee Chairman is a chartered accountant and was formerly a registered company auditor, although he has never acted as an auditor of David Jones.

The Chief Executive Officer and Managing Director and Chief Financial Officer attend Audit Committee meetings. The external auditors, Corporate Risk and Internal Audit Manager (CRIA Manager), Chairman of the Board and other senior executives attend Audit Committee meetings at the invitation of the Committee.

This Committee has specific responsibility for the following.

(a) External financial reporting

The Committee reviews and recommends all aspects of external financial reporting including:

- accounting policies and principles and any changes to them;
- significant estimates and adjustments in the financial reports;
- compliance with related party disclosures;
- discussion of half-year and full-year financial reports with management, auditors and other advisers as appropriate, and the adoption of those reports by the Board;
- policies and procedures for the adoption of new accounting standards and pronouncements; and
- the integrity of David Jones' written policies and procedures designed to ensure continuous disclosure and accurate financial reporting.

(b) Related party transactions

The Committee reviews, monitors and recommends for approval by the Board any related party transactions.

(c) Risk management and internal control

The David Jones Board is responsible for overseeing the establishment, implementation and ongoing effectiveness of the Company's risk management and internal control system. The Audit Committee provides advice and assistance to the Board in meeting that responsibility.

The roles, responsibilities and processes established by management are described in the Risk Management and Internal Control Compliance and Control Systems Policy.

The Committee evaluates results and reports from those processes including:

- the risk management and control system;
- the risk profile;
- results of independent risk reviews;
- risk reporting, and;
- regulatory compliance.

(d) External audit

The Committee is responsible for making recommendations to the Board concerning the appointment of David Jones' external auditor including remuneration and other terms of the auditor's engagement.

The Committee reviews the performance of the external auditor and each half-year will review the independence of the external auditor including compliance with its policy covering the provision of non-audit services.

The external auditor meets directly with this Committee. The Committee has the opportunity to meet with the external auditor without management being present and Committee members are free to contact the external auditor at any time.

(e) Corporate risk management and internal audit

The Committee is responsible for making recommendations to the Board concerning the appointment of David Jones' CRIA Manager including remuneration and other terms of the CRIA Manager's engagement.

The Committee reviews the performance of the CRIA function.

Each year, the Committee reviews the internal Risk Review plan and recommends it to the Board for approval.

The Committee also monitors and reports to the Board on management's responsiveness to internal Risk Review reports, findings and any recommendations.

The CRIA Manager reports directly to the Committee, except in respect of operational matters which are delegated to the Chief Financial Officer, and members have the opportunity to meet with the CRIA Manager without the presence of other management.

The effectiveness of the Audit Committee is periodically reviewed by independent experts.

### 4.5 Property Committee

The role of the Property Committee is documented in a charter that has been approved by the Board and is reviewed on an annual basis. The objectives of the Committee are to assist the Board in:

- undertaking full and adequate consideration of property related matters; and
- recommending actions on property related matters which are aligned with David Jones's strategy and objectives.

During FY2012, the Property Committee comprised of three independent Non-executive Directors of the Company until 3 May 2012 (when the Committee then comprised of two independent Non-Executive Directors). 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.

The responsibilities of the Property Committee included the following:

- to approve specific property initiatives within parameters previously agreed by the Board;
- to consider property issues of substantial complexity so as to facilitate more efficient debate on these issues;
- to consider the high level property strategy information produced by management and which relate to broader issues of company strategy, including cash flow management by year, lease terms and conditions and property ownership, prior to consideration by the Board; and
- to ensure that the Company adopts a consistent approach to decisions relating to all property matters and associated documentation.

## 5 EXTERNAL AUDITOR INDEPENDENCE

### 5.1 Approach to auditor independence

David Jones' Audit Committee has adopted a policy for external auditor independence and the provision of non-audit related services to ensure best practice in financial and audit governance is maintained. The policy has been endorsed by the Board.

The fundamental principle of auditor independence reflected in the policy is that in order for the external auditor to be independent, a conflict of interest situation must not exist between David Jones and the auditor. A conflict of interest situation would exist if the external auditor or a professional member of the audit team were not capable of exercising objective and impartial judgement in relation to the conduct of the audit of David Jones.

For the external auditor to be eligible to undertake any non-audit related services, the external auditor must not as a result of the assignments:

- create a mutual or conflicting interest with that of David Jones;
- audit their own work;
- act in a management capacity or as an employee; or
- act as an advocate for David Jones.

### 5.2 Certification of independence

Each half-year the external auditor provides the Committee and Board with an independence declaration certifying its continued independence, and in particular confirming that it has not carried out any engagements during the year that would impair its professional independence as the auditor, as contemplated by the Corporations Act, and the APES110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethics Standards Board.

The external auditor is also required to confirm it will retain all working papers for the audit (or review) for a period of seven years after the date of the audit report.

### 5.3 Other monitoring of independence

The Audit Committee will review and approve or decline, as considered appropriate, before the engagement commences, any individual engagement for non-audit related services involving fees exceeding or estimated to exceed $50,000.

No work will be awarded to the external auditor if the Committee believes such work would be in contravention of the Corporations Act, give rise to a 'self review threat' (as defined in APES110 Code of Ethics for Professional Accountants) or create a conflict, or perceived conflict of interest, for the external auditor or any member of the audit team.

Further, if, in the view of the Committee, the level of fees for non-audit related services being provided by the external auditors is of a magnitude that could impair, or be perceived to impair, the auditor's independence, the Committee may, from time to time, impose a restriction on non-audit work being awarded to the external auditor.

The Committee receives half-yearly reports on audit related services undertaken and fees incurred, together with comparative information for prior years, to assist in the monitoring of the provision of such services.

David Jones requires rotation of a person who plays a significant role in the external audit of the David Jones Group for five successive financial years or for five out of seven successive financial years, with suitable succession planning to ensure consistency. A person who is rotated off the audit cannot play a significant role in the audit for at least two successive financial years. An external audit partner rotation occurred in 2009.

A former member or director of the external auditor who was directly involved in an audit of David Jones (or its controlled entities) cannot be appointed an officer (Director, Company Secretary or senior manager) of David Jones during the two year period following the former member's or director's resignation from the external audit firm.

David Jones' independent external auditor, Ernst & Young, was appointed by shareholders at the 2003 Annual General Meeting.

An analysis of the fees paid to the external auditors is provided in note 27 on page 104 of this Annual Report.

No fees were paid to Ernst & Young for non-audit services in the 2012 financial year.

### 5.4 Prohibited non-audit services by the external auditor

No work carried out by an external auditor will be approved, and the external auditor will not provide services, involving:

- preparation of accounting records and financial statements;
- information technology systems design and implementation;
- valuation services and other corporate finance activities;
- internal audit services; or
- secondment of senior staff to act in a management capacity.

### 5.5 Attendance at the Annual General Meeting

David Jones requires a partner of its external auditor to attend its Annual General Meeting and be available to answer questions from shareholders about the audit. The audit partner from Ernst & Young attended the 2011 Annual General Meeting.

David Jones ensures that written questions received from shareholders are given to the external auditor to be answered, along with any other questions put to the auditor at the Annual General Meeting.

## 6 OVERSEEING, MANAGING AND CONTROLLING RISK

### 6.1 Approach to risk oversight, risk management and internal control

David Jones' approach to risk oversight, risk management and internal control has been developed and is consistent with recognised industry reference material and guidelines.

The risk management process is designed to ensure material risks are identified, assessed, mitigated through effective internal controls and monitored to manage risk in the achievement of David Jones' business objectives. Material risks are those with significant areas of uncertainty or exposure at an enterprise level that could have an impact on the achievement of company objectives. The assessment includes threats and opportunities. David Jones considers risk in at least the following categories:

- strategic;
- brand;
- products or service quality;
- operational;
- sustainability;
- ethical conduct;
- compliance;
- technology;
- financial reporting;
- human resources, and
- market.

David Jones has an effective control environment to manage its material risks with the following components:

- comprehensive risk management framework;
- clearly defined management responsibilities and organisational structure;
- delegated limits of authority defined by a Delegations Manual;
- accounting control and reconciliations;
- strong management reporting systems;
- disciplined budgeting and rolling five year strategic plan processes;
- regular internal review and mechanisms including the operation of a Capex Committee, Marketing Forum and Executive Committee;
- personnel requirements for key positions;
- segregation of duties;
- physical and logical security over company assets;
- appropriate policies and procedures that are widely disseminated to, and understood by, employees;
- an independent corporate risk management and internal audit function; and
- an independent external audit.

The risk categories identified above are interlinked and the control environment is integrated to manage those risks.

### 6.2 Risk management and internal control roles and responsibilities

The Board is responsible for overseeing and assessing the effectiveness of the Company's risk management and internal control system. The Audit Committee provides advice and assistance to the Board in meeting that responsibility.

David Jones' management is responsible for and has implemented a risk management and control system. The risk identification, analysis and mitigation process is documented in the Company's Risk Profile. The process is designed to ensure material risks are identified, assessed, mitigated through effective internal controls and monitored to minimise risk in the achievement of David Jones' business objectives.

The Risk Profile is reviewed and updated at least annually by the Audit Committee. The Risk Profile forms the basis of planning and conducting independent reviews by the internal Corporate Risk Management & Audit function or other independent experts to provide independent assurance over the operation of key controls in place to address the material risks. External audit has full access to the Risk Profile, results of the internal Corporate Risk Management & Audit reviews, and results of any other independent expert reviews.

The role of the Audit Committee in relation to risk management is described in section 4.4.

The David Jones' Risk Management and Internal Compliance and Control Systems Policy, which forms part of the Audit Committee Charter, is available in the Corporate Governance section of the David Jones website.

**6.3 Management and Executive declarations**

Management reports to the Board as to the effectiveness of David Jones' management of its material business risks. Management has provided assurance to the Board in regards to the Company's management of its material business risks.

The Chief Executive Officer and Managing Director and the Chief Financial Officer have provided a declaration to the Board pursuant to section 295A of the Corporations Act in respect of the financial period ended 28 July 2012:

- David Jones' financial statements and accompanying notes present a true and fair view of the David Jones Consolidated Entity's financial position and performance, and comply with relevant accounting standards;
- the financial records of David Jones for the financial period ended 28 July 2012 have been properly maintained in accordance with section 286 of the Corporations Act; and
- the statements referred to above paragraph are founded on a sound system of risk management, internal compliance and control, that operated efficiently and effectively in all material respects in relation to financial reporting risks.

## 7 REMUNERATION POLICIES AND PROCEDURES

**7.1 Overview**

David Jones has established processes to ensure that the level and composition of remuneration are sufficient, reasonable and explicitly linked to performance. These processes are described below and on pages 46 to 70 in the Remuneration Report.

(a) Non-Executive Directors

The Remuneration and Nominations Committee is responsible for recommending to the Board fees applicable to Non-executive Directors.

In accordance with a resolution of shareholders at the 2008 Annual General Meeting, the maximum aggregate amount that is permitted to be paid to Non-executive Directors under the David Jones constitution is $2.3 million per annum.

Contributions to the retirement allowance plan for Non-executive Directors (other than notional interest adjustments based on the retirement allowance balance) were discontinued in October 2004. Since October 2003 no new Directors have been entitled to join this plan. There are no other schemes for the payment of retirement benefits for Non-executive Directors, other than statutory superannuation.

Non-executive Directors may also be reimbursed for their expenses properly incurred as a Director, or in the course of their duties. The Non-executive Directors do not participate in the David Jones Short Term Incentive (STI) Scheme or Long Term Incentive (LTI) Plan.

(b) Executive Directors and Senior Managers

The Remuneration and Nominations Committee is responsible for recommending to the Board remuneration policies, fees, salaries and short and long-term incentives applicable to Executive Directors and senior managers of the Company.

David Jones' remuneration policies are designed to drive a performance culture and to ensure that the way in which employees are recognised and rewarded through remuneration is in the best interests of the shareholders, the Company and the individual.

The remuneration policies achieve this in the following ways:

- by applying a "pay for performance" philosophy which ensures executive remuneration is linked to both individual performance and Company performance;
- by providing remuneration that is market competitive to ensure David Jones has the ability to retain and motivate strong performing employees and attract high calibre prospective employees; and
- by undertaking an annual evaluation process on the performance of all executives, the results of which contribute to the determination of any salary adjustment an individual executive may receive.

As detailed in the Remuneration Report, the short and long-term incentive components of remuneration are determined with reference to external benchmarking and advice from independent experts.

The financial hurdles in the STI Scheme and LTI Plan are (as applicable) determined through a structured budgeting and three year planning process that requires full Board approval.

Payments made under the STI Scheme and securities granted under the LTI Plan are audited or reviewed by the Company's external auditors.

**7.2 STI Scheme**

Under David Jones' STI Scheme, the Executive Directors and senior employees can earn a reward outcome based on a pre-determined percentage of their fixed remuneration (which is comprised of base salary and superannuation contributions). Payments under the STI Scheme is dependent on the achievement of specific financial objectives relating to sales, gross profit, costs, inventory management and profit after tax (as applicable to the relevant position) with a key component also based on the assessment of personal performance. For the FY2013 STI Scheme, any overachievement of STI targets will be paid as equity and the receipt of this equity deferred for one year.

Further details of the STI Scheme are provided on pages 52 to 54 in the Remuneration Report.

### 7.3 LTI Plan

The objectives of the Company's LTI Plan 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.

The FY2009–FY2012 Executive Retention Plan (ERP) was the only executive Long Term Incentive in existence during the financial year.

ERP targets were based on the achievement of two evenly weighted performance measures. These measures include Profit after Tax and relative Total Shareholder Return (TSR). TSR of the Company is measured against a peer group of companies comprised of both retail and non-retail ASX300 companies which were considered to be impacted by consumer spending and sentiment and/or economic cycles.

Further information relating to the Executive Retention Plan including performance and vesting outcomes is set out on pages 55 to 58 in the Remuneration Report.

The Company has introduced a new Executive Long term Incentive Plan (ELTIP) for the period FY2013 to FY2015. The performance measures under the ELTIP include two evenly weighted performance measures including relative TSR and compound growth in Earnings Per Share.

Further information relating to the ELTIP is set out on pages 59 to 61 in the Remuneration Report.

## 8 CORPORATE CONDUCT AND RESPONSIBILITY

### 8.1 Approach to corporate conduct

To continue its tradition of excellence, David Jones must uphold the honest and transparent business practices that customers, shareholders, suppliers and the community have come to expect. With this in mind, David Jones aims to maintain a high standard of ethical business behaviour at all times and expects its Directors, senior management, employees and contractors to treat others with fairness, honesty and respect.

David Jones has a Code of Ethics and Conduct (Code), which has been provided to Directors, employees and contractors and is available in the Corporate Governance section of the David Jones website.

### 8.2 The David Jones Code of Ethics and Conduct

The Code applies to all of the Company's Directors, employees and contractors. The Code has been fully endorsed by the Board and is provided to all Directors, employees and contractors as part of their formal orientation process. Regular training in relation to the Code is undertaken by Directors, employees and contractors. The Code governs workplace and human resource practices, risk management and legal compliance, and is aligned to the David Jones' core values of teamwork, integrity and performance. The Code is reviewed periodically and has been amended to reflect the ASX Recommendations.

In summary, the Code reflects the requirement to:

– uphold the reputation of David Jones with all stakeholders in terms of quality, service, legal compliance and ethical conduct;

– respect property and the ownership of that property;

– maintain confidentiality and privacy of information;

– ensure equal opportunity for all employees;

– maintain a safe and healthy environment for customers and employees alike;

– treat all employees in a fair and professional manner, ensuring the workplace is free from harassment, discrimination and bullying;

– ensure business is conducted fairly, honestly and objectively, in ways that benefit David Jones' stakeholders: shareholders, customers, employees, suppliers and the communities in which David Jones operates;

– avoid (and disclose) situations or transactions which, or might be seen to, conflict with the interests of David Jones, including gifts and benefits from suppliers;

– comply with the David Jones policy on trading in shares; and

– report and investigate instances of unethical behaviour.

Other responsibility policies and codes that operate in David Jones include:

– Legal Compliance Manual;

– External Communications and Continuous Disclosure Policy;

– Risk Management Guidelines;

– Delegations Manual;

– Treasury Policy;

– Capital Expenditure Policy;

– Share Trading Policy; and

– Occupational Health and Safety, Equal Opportunity and other human resources policies.

During the 2012 financial year, a refresh of the Code of Ethics and Conduct was delivered to all David Jones employees. As part of this process every new employee commencing after the previous year's sessions attended a face to face education session and was asked to formally acknowledge their understanding of and commitment to the Code. In addition, employee orientation and store's online compliance training have been updated to incorporate relevant training materials.

### 8.3 Compliance with the Code

David Jones is committed to promoting and maintaining a culture of honest, ethical and law-abiding behaviour. To fulfil this commitment, David Jones has processes in place to ensure that:

– violations of the Code are detected and reported; and

– appropriate action is taken in response to any such violations.

David Jones encourages Directors and employees to report promptly, in good faith, any violations or suspected violations of this Code. All employees have the choice to access either an internal Code of Ethics Hotline or an independent ethics hotline. Employees are encouraged to use the hotlines and may do so on a confidential and anonymous basis. All reports are investigated promptly, confidentially and fairly without recrimination against the person reporting an incident.

The policy underlying these procedures ensures that employees are not disadvantaged in any way for reporting violations of the Code or other unethical conduct.

### 8.4 Diversity

(a) Promoting diversity and diversity initiatives

The Company is committed to pursuing a culture of diversity. At David Jones the importance of supporting and valuing every employee is recognised, as is promoting an environment of acceptance and inclusion.

The Board is committed to ensuring that Management and the entire David Jones workforce is comprised of and attracts diverse, talented and motivated people.

The Company's approach to diversity promotes commitment to a culture that equally embraces gender, age, culture, religious beliefs, sexual orientation and family responsibilities of our people.

In FY2012, the Board adopted a Diversity Policy that includes the establishment of measurable objectives for achieving gender diversity, and the annual assessment of both the objectives and progress in achieving them. The Company is also progressing further work in three key diversity dimensions nominated as most important by our employees – workplace flexibility, family responsibility, and age and culture. The initiatives in each of these three dimensions are aimed at further promoting an inclusive culture and an environment that values individual differences.

(b) Gender diversity

Gender diversity has and continues to be a key area of focus and commitment across the Company.

At David Jones, women comprise 78.34% of the Company's permanent workforce staff.

Management positions make up 14% of the total workforce, and of these management positions, 68% are held by women. Within our retail department stores, women hold 68% of available management positions.

At the senior management level, 54% of positions are held by women.

There are currently 8 Directors on the David Jones Board, comprising 6 Non-executive Directors (including Jane Harvey who was appointed on 3 October 2012) and 2 Executive Directors. Two positions are held by women on the Board, representing 25%.

The Board set measurable objectives, tabled below, in recognition of the many benefits attributable to female representation in the roles of leadership and influence, particularly given the Company's predominantly female employee and customer base. These objectives will be achieved by an ongoing and targeted approach to the Board and Executive Management succession planning.

| OBJECTIVE | CURRENT POSITION |
|---|---|
| 3 women on the Board by 2015 | 2 women on the Board |
| Maintaining a minimum 50% of women in senior management | 54% of senior management positions are held by women |

The Company is proud of its progress and achievements to date in promoting gender diversity throughout all levels of its workforce and will continue to actively develop and implement initiatives that will ensure gender diversity objectives are achieved.

### 8.5 Share Trading Policy

David Jones has a Share Trading Policy that complies with the requirements of ASX Listing Rule 12.12. This was lodged with the ASX in 2010 and is available in the Corporate Governance section of its website.

Consistent with the legal prohibitions on insider trading, under the policy, all Directors, officers, members of senior management, other employees and consultants are prohibited from dealing in David Jones securities while in possession of unpublished price sensitive information about David Jones. Directors, officers, members of senior management, other employees and consultants are also prohibited from dealing in David Jones securities:

– if in possession of price sensitive information;

– trading for short-term gain; and

– outside the following permitted trading periods:

– within six weeks after the date of release of the Company's half-year and annual results to the ASX; and

– the rights trading period when the Company has issued a prospectus for those rights.

Other restrictions on trading covered by this policy include specific terms relating to the use of financial products to limit the risk attaching to shares and other equity (that is, hedging) where that equity is granted as part of remuneration.

Directors, officers, members of senior management and other employees and consultants:

- are prohibited from entering into transactions in financial products which operate to limit the economic risk of security holdings in the Company over unvested entitlements or vested entitlements subject to a holding lock or restriction on dealing (known as restricted entitlements) including, without limitation, any hedging or similar arrangement in respect of unvested entitlements or restricted entitlements held or granted under any equity-based remuneration scheme
- must advise the Company of any entry into, renewal of, alteration of or closure of any hedging arrangement in respect of vested and unrestricted security holdings in the Company (at the same time confirming that they are not in possession of any unpublished price-sensitive information);
- are also prohibited from entering into any stock lending or other similar arrangements in relation to their security holding in the Company; and
- prohibited from dealing in the securities of outside companies about which they may gain price sensitive information by virtue of their position with David Jones.

The Company regards compliance with the Share Trading Policy as fundamental. A breach of the Share Trading Policy (including a breach of the hedging policy described above) will be regarded as serious misconduct which may lead to disciplinary action (including dismissal).

David Jones requires that Directors must advise the Chairman, and officers, members of senior management and consultants to advise the Company Secretary or Chief Financial Officer of the following:

- a proposed trade in the Company's shares, options or other securities prior to any trade and confirm they are not in possession of any unpublished price-sensitive information;
- any transaction or arrangement proposed to be entered into, renewed, altered or closed out which may operate to limit the economic risk of their vested and unrestricted security holdings in the Company and confirm they are not in possession of any unpublished price-sensitive information;
- any margin loan arrangement proposed to be entered into in relation to security holdings in the Company; and
- any proposed transfer of Company securities into an existing margin loan account.

The ASX is notified of all relevant transactions involving securities conducted by Directors.

### 8.6 Continuous disclosure and shareholder communication

David Jones is committed to:

- ensuring shareholders and the investment market are provided with full and timely information about its activities;
- ensuring that all stakeholders have equal opportunity to receive externally available information issued by David Jones; and
- complying with the continuous disclosure obligations contained in applicable ASX Listing Rules and the Corporations Act.

David Jones' Continuous Disclosure Policy sets out David Jones' commitment to comply with its continuous disclosure obligations.

A copy of the Continuous Disclosure Policy is available in the Corporate Governance section of David Jones' website.

Under this Policy, the Board will, as soon as it becomes aware of information concerning David Jones that would be likely to have a material effect on the price or value of David Jones' securities, ensure that the information is released to the Company Announcements office of the ASX. The Board has appointed a committee comprising the Chief Executive Officer and Managing Director, Chief Financial Officer and the General Manager – Investor Relations to continually monitor compliance and to ensure appropriate communications with the ASX through the office of the General Counsel and Company Secretary.

The Board aims to keep shareholders informed of all major developments affecting David Jones' activities and its state of affairs. The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with David Jones' strategy and goals. The Company's senior management and auditors attend the Annual General Meeting to answer questions of shareholders as required.

All recent David Jones announcements, media briefings, details of David Jones meetings, press releases, analyst presentations and annual reports for the last five years and information on all corporate governance practices are placed on the David Jones' website at www.davidjones.com.au.

The Company provides advanced notice to all major shareholders and analysts briefings. Such briefings can be attended in person or via telephone conference facilities. A register of all attendees at these briefings is maintained. In addition, a summary record is prepared for internal use of all issues discussed at briefings and one on one meetings with shareholders and analysts.

David Jones' Shareholder Communication Policy sets out the various means by which shareholders can obtain information about the Company's activities and engage actively with the Company and exercise their rights as shareholders in an informed manner. A copy of the Shareholder Communication Policy is available in the Corporate Governance section of David Jones' website.

### 8.7 Community and the environment

Information in relation to the Company's approach to the environment and the community is set out on pages 31 to 37 of the Annual Report.

## 9. ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

| ASX Principle and Recommendations | | Reference[1] | Compliance |
|---|---|---|---|
| **Principle 1** | **Lay solid foundations for management and oversight** | | |
| 1.1 | Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | 3.2 | Comply |
| 1.2 | Companies should disclose the process for evaluating the performance of senior executives. | 3.9 | Comply |
| 1.3 | Companies should provide the information indicated in the Guide to reporting on Principle | 1.3.2 – 3.7, 3.9 | Comply |
| **Principle 2** | **Structure the board to add value** | | |
| 2.1 | A majority of the board should be independent directors. | 3.3 | Comply |
| 2.2 | The chair should be an independent director. | 3.3, 3.4 | Comply |
| 2.3 | The roles of chair and chief executive officer should not be exercised by the same individual. | 3.3 | Comply |
| 2.4 | The board should establish a nomination committee. | 4.3 | Comply |
| 2.5 | Companies should disclose the process for evaluating the performance of the board, its committees and individual directors. | 3.9, 4.2 | Comply |
| 2.6 | Companies should provide the information indicated in the Guide to reporting on Principle 2. | 3.1, 3.5, 3.9, 3.10, 3.13, 4.1, 4.2 | Comply |
| **Principle 3** | **Promote ethical and responsible decision-making** | | |
| 3.1 | Companies should establish a code of conduct and disclose the code or a summary of the code as to:<br>– the practices necessary to maintain confidence in the company's integrity<br>– the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders<br>– the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | 8.1, 8.2, 8.3 | Comply |
| 3.2 | Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them. | 8.4 | Comply |
| 3.3 | Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress toward achieving them. | 8.4 | Comply |
| 3.4 | Companies should disclose in each annual report the proportion of women in the whole organisation, women in senior executive positions and women on the board. | 8.4 | Comply |
| 3.5 | Companies should provide the information indicated in the Guide to reporting on Principle 3. | 8.1 – 8.4 | Comply |

| ASX Principle and Recommendations | | Reference[1] | Compliance |
|---|---|---|---|
| **Principle 4** | **Safeguard integrity in financial reporting** | | |
| 4.1 | The board should establish an audit committee. | 4.1, 4.4 | Comply |
| 4.2 | The audit committee should be structured so that it:<br>– consists only of non-executive directors<br>– consists of a majority of independent directors<br>– is chaired by an independent chair, who is not chair of the board.<br>– has at least three members. | 4.1, 4.4 | Comply |
| 4.3 | The audit committee should have a formal charter. | 4.2, 4.4 | Comply |
| 4.4 | Companies should provide the information indicated in the Guide to reporting on Principle 4. | 4.1, 4.2 | Comply |
| **Principle 5** | **Make timely and balanced disclosure** | | |
| 5.1 | Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies. | 8.6 | Comply |
| 5.2 | Companies should provide the information indicated in the Guide to reporting on Principle 5. | 8.6 | Comply |
| **Principle 6** | **Respect the rights of shareholders** | | |
| 6.1 | Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. | | Comply |
| 6.2 | Companies should provide the information indicated in the Guide to reporting on Principle 6. | | Comply |
| **Principle 7** | **Recognise and manage risk** | | |
| 7.1 | Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. | 6.1, 6.2 | Comply |
| 7.2 | The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks. | 6.2, 6.3 | Comply |
| 7.3 | The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | 6.3 | Comply |
| 7.4 | Companies should provide the information indicated in the Guide to reporting on Principle 7. | 6.2, 6.3 | Comply |
| **Principle 8** | **Remunerate fairly and responsibly** | | |
| 8.1 | The board should establish a remuneration committee. | 4.1, 4.3 | Comply |
| 8.2 | The remuneration committee should be structured so that it:<br>– consists of a majority of independent directors<br>– is chaired by an independent chair<br>– has at least three members[2]. | 4.1, 4.3 | Comply |
| 8.3 | Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. | 7 and Remuneration Report | Comply |
| 8.4 | Companies should provide the information indicated in the Guide to reporting on Principle 8. | 4.1, 4.3, 7.1, 8.5 | Comply |

[1] References to section numbers refer to the relevant sections of this Corporate Governance Statement.

[2] The Remuneration and Nominations Committee consisted of three members for all meetings held during the year ended 28 July 2012.

# CORPORATE SUSTAINABILITY REPORT

Paul Zahra **Chief Executive Officer and Managing Director**

I am pleased to present David Jones' Corporate Sustainability Report for FY2012.

This is the second year that David Jones has consolidated its non-financial disclosures into one report, as the Company continues on its journey towards integrated sustainability reporting.

As David Jones prepares for its 175 year anniversary, I am proud that our business has been able to retain its standing as a good corporate citizen, despite the most challenging retail conditions in a generation. I remain personally committed to ensuring that we continue to strike a balance between shareholder returns and the long-term sustainability of our business and brand.

David Jones' commitment to sustainability reflects my own personal beliefs. As a member of the Chairman's Panel for the Great Barrier Reef Foundation, I believe that business has a role to play in protecting the world around us and preserving our natural heritage for future generations. I also believe we have an obligation to support charitable and community organisations in exchange for our social license to operate, and that we have a responsibility to ensure the safety and welfare of our employees.

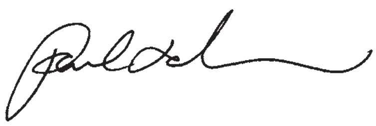
This Corporate Sustainability Report illustrates the investment that David Jones continues to make in managing and reporting its social and environmental responsibilities. It provides an overview of the Company's performance in four key areas, including:

- our people;
- our commitment to occupational heath and safety;
- our community; and
- our environment.

To consider other non-financial indicators of our Company's performance, we commenced a materiality assessment in 2012. By engaging our employees, customers and shareholders, and by conducting a peer review to assess best practice organisations in sustainability, we aim to identify and evaluate other non-financial issues that are both important to our stakeholders and material to David Jones.

As part of David Jones' commitment to continually improving our sustainability reporting, we have added an overview of sustainability statistics which have been cross-referenced to Global Reporting Initiative (GRI) indicators, to allow for more credible comparison between our company and other organisations.

I am proud of what we have achieved over the past year and am excited by the plans the business has in place to continue integrating sustainability into our broader corporate strategy. On behalf of the Board of Directors and Executive Committee, I commend this report to you and look forward to providing another update in next year's annual report.



Paul Zahra
**Chief Executive Officer and Managing Director**

## DAVID JONES APPROACH TO SUSTAINABILITY

David Jones is committed to operating in an environmentally and socially responsible manner. To identify opportunities to enhance its current approach to sustainability and prepare the business for integrated reporting, David Jones commenced a materiality assessment in FY2012.

As part of this assessment, the following activities have been completed over the past 12 months.

- A desktop review of publicly available information to understand the approach that other organisations have taken to corporate sustainability and reporting. This sample includes Woolworths Limited, Wesfarmers Limited, Qantas Airways Limited, Westpac Banking Group and GPT Group. The sample also included a number of overseas retailers, including Marks and Spencer, John Lewis, Sainsbury's, Wal-Mart and Woolworths Holdings.
- Interviews and focus groups with regional managers, store management teams and front-line team members to help shape the environment strategy and determine the link between personal values and sustainability objectives.
- Engagement with customers and investors, through market research and focus groups, to help determine any shift in sentiment in relation to David Jones' philanthropic strategy and broader sustainability objectives.
- Discussions with industry associations (such as Sustainable Business Australia) to identify the macro-environmental trends in corporate sustainability and sustainable development.
- Meetings with sustainability consultants and practitioners to help develop a robust framework to be used in managing the materiality assessment.

This process will continue into FY2013 with additional market research; engagement with employees, customers, investors, sustainability practitioners and the community; and further peer review through press and media reports.

The aim of this assessment is to identify key trends in relation to sustainability and then evaluate the importance of these to stakeholders and the materiality to David Jones. David Jones has compiled the following statistics, based on disclosures currently made by the Company.

| KEY PERFORMANCE INDICATOR | UNIT | FY2012 | FY2011 | COMMENTS |
|---|---|---|---|---|
| **OUR PEOPLE[1]** | | | | |
| Women in permanent workforce | % | 78.3 | 79.5 | |
| Women in stores' management positions | % | 68.0 | 67.1 | |
| Women in senior management positions | % | 54.0 | 33.3 | |
| Women in board positions[2] | % | 14.3 | 22.2 | |
| **OUR COMMITMENT TO SAFETY[1]** | | | | |
| Lost Time Injury Frequency Rate (LTIFR) | | 3.9 | 3.3 | Injuries per million work hours |
| Number of Workers Compensation Claims | | 217 | 248 | |
| Number of Medical Treatment Injuries | | 212 | 281 | |
| **OUR COMMUNITY[1]** | | | | |
| Value of Donations | $000 | 558 | 1,150 | |
| Value of Donations as a % of EBIT | % | 0.36 | 0.46 | |

| KEY PERFORMANCE INDICATOR | UNIT | FY2012 | FY2011 | BASELINE POSITION[3] | | COMMENTS |
|---|---|---|---|---|---|---|
| **OUR ENVIRONMENT[1]** | | | | | | |
| Greenhouse Gas Emissions (Scope 1) | tonnes | 4,969 | 5,009 | 4,850 | *FY2010* | Total CO2 equivalents, within |
| Greenhouse Gas Emissions (Scope 2) | tonnes | 92,838 | 101,602 | 120,675 | *FY2006* | Company's operational control |
| Electricity Consumption | MWh | 100,578 | 107,996 | 127,340 | *FY2006* | Megawatt hours per annum |
| Energy Efficiency – based on trading hours | watts | 51.56 | 54.59 | 73.03 | *FY2006* | Watts per sq.metre per hour |
| Energy Efficiency – based on total hours | watts | 19.27 | 20.36 | 24.50 | *FY2006* | Watts per sq.metre per hour |
| Waste sent to landfill | tonnes | 2,749 | 3,323 | 5,995 | *FY2006* | General waste |
| Waste diverted from landfill (recycling) | tonnes | 1,669 | 1,747 | 1,350 | *FY2006* | Cardboard, paper and plastics |

[1] The key performance indicators conform to the following GRI requirements: People (LA13), Safety (LA7), Community (SOI), Environment (EN16, EN3 and EN22).

[2] Jane Harvey was appointed to the Board of David Jones on 3 October 2012 and accordingly is not included in the statistics for FY2012.

[3] The baseline position reflects the date from when the Company commenced measuring the key performance indicators.

## DAVID JONES IS COMMITTED TO INVESTING IN ITS PEOPLE AND PROVIDING A WORK ENVIRONMENT WHERE ALL EMPLOYEES ARE SUPPORTED, RECOGNISED AND REWARDED

### 1 COMMITMENT TO PEOPLE

David Jones believes that engaged and satisfied team members will lead to continuous improvement in customer service, customer satisfaction and sales.

This belief underpins David Jones' commitment to realising its vision of being the 'best place for our people to work' by investing in its people and providing an environment that ensures that following goals:

- Every employee is valued;
- Recognition and reward for contribution and performance;
- Opportunities for team members to achieve their full potential;
- Commitment to safety, health and welfare;
- Commitment to environmental responsibilities; and
- Support for philanthropic causes that are important to both David Jones' customers and employees.

### 2 FOCUS ON PEOPLE

Feedback from the "Your Say Our Future" employee engagement survey conducted in FY2011 enabled identification of the key drivers of engagement and retention, and opportunities for targeting key people initiatives to make David Jones the 'best place for our people to work'.

In FY2012, David Jones maintained its people focus by continuing to invest in a range of initiatives to ensure employees feel valued and supported, particularly in light of the continuing challenges in the retail trading environment.

Initiatives implemented during FY2012 covered engagement and retention, communication, training, development, recognition and reward, as outlined below.

#### 2.1 Engagement and Retention

*David Jones Charity Leave Policy*

Supporting the philanthropic causes that are important to its customers and team members is key to engagement at David Jones and led to the introduction of a Charity Leave Policy. Charity leave provides the opportunity for team members to take one day of paid leave per annum, for the purpose of providing meaningful and hands-on support to David Jones' key philanthropic partner, the National Breast Cancer Foundation.

*Employee Referral Program*

David Jones recognises that current team members are the Company's best recruiters because they are the Company's best advocates. To encourage increased recruitment referrals of high talent future candidates, David Jones introduced a market competitive referral incentive to reward any team member whose referral results in the successful placement of an external candidate in a nominated vacancy.

*Employee Self Service*

To help team members achieve their full potential, David Jones has started to invest in efficiency measures that streamline time-consuming administration tasks, including implementation of a web-based leave planning, management and reporting system. The introduction of this paperless process not only reduces administration time but also helps David Jones to meet its objective of transitioning to an environmentally sustainable business model.

*Innovation Workshop*

Generating new ideas to improve, strengthen and transform David Jones is integral to the Company's sustained success. To encourage continued innovative thinking, 150 team members from across the business participated in an innovation workshop at the Company's annual conference in August 2012. Subsequently, a new "Innovation Team of the Year" award will be made for the first time in FY2013, to the innovation workshop participants whose innovation was judged to be the standout in break through thinking.

### 2.2 Training and Development

As continuous improvement in people skills positively impacts employee engagement, retention, productivity and performance, David Jones recognises the importance of investing in the future and continues to build the management and leadership capability of line managers. Established training and development programs continued to be delivered over the past year, in addition to the development and implementation of the following new programs.

*David Jones Executive Leadership Program*

The Executive Leadership Program is a Sydney-based program run in conjunction with Melbourne Business School, Mt Eliza. The program is designed to address the development needs of the David Jones' Executive Committee and Executive Leadership Team, and comprises five leadership modules including a 360-degree leadership survey.

*David Jones Future Leaders Program*

The Future Leaders program is a five day leadership program that has been designed in-house to develop high potential people managers that have been identified as part of the Company's annual succession planning process. Given the impact that leadership has on engagement of team members, the Future Leaders program will be run annually to maintain a targeted focus on improving the leadership skills and capabilities of David Jones' key talent people managers.

*Operations Online Compliance Training*

Annual compliance training was conducted on-line in FY2012, enabling frontline Store, Fulfilment Centre and Retail Brand managed employees to access and complete training at their own pace and convenience. This training ensures that frontline employees remain current in processes and policies that are important to their role, including workplace safety, food safety, customer service and the David Jones Code of Ethics and Conduct.

### 2.3 Recognition and Reward

An important part of David Jones' culture is recognising and rewarding the contribution that individuals and teams make towards the Company's performance, particularly during challenging trading periods where quantitative rewards and incentives are significantly impacted.

*New Executive Incentive Framework*

During FY2012, the Company reviewed and revised the Executive Incentive Framework, to ensure alignment between the Company's Future Directions strategic plan, shareholder value and performance-based Executive incentives in the short and longer term. The details of the framework can be found in the Company's Remuneration Report.

*New Enterprise Agreements*

At David Jones, 8,500 team members are covered by an Enterprise Bargaining Agreement (EBA). During FY2012, the Company renegotiated and received majority team member support for new EBAs covering front-line employees in stores and the fulfilment centre, for the period between FY2013 and FY2015. Each EBA was subsequently certified by Fairwork Australia, ensuring certainty and consistency for the Company and team members in an ever changing labour market.

*New Frontline Incentive Program*

The David Jones Frontline Sales Incentive Scheme (FSIS) rewards sales performance and is open to all employees who are not incentivised directly by a retail brand partner. This scheme also plays a role in attracting and retaining key performers. In FY2012, David Jones increased the earn quantum available to employees and, at the same time, enabled employees to have access to daily reports that assist in monitoring their own progress towards achieving FSIS targets.

*Excellence Awards Program*

At the Company's annual conference in August each year, David Jones recognises and awards individuals and teams that represent the best of its excellence culture and behavioural competencies. These awards are made in three major categories:

– The Special Achievement awards for Merchandise, Operations and the Support Centre;

– The Chief Executive Officer Vision Awards; and

– The David Jones Legend Awards.

This year, the David Jones Legend Awards were awarded to:

– Store of the Year – Wollongong (NSW)

– Buyer of the year – Sarah Buckham, Senior Buyer Beauty – David Jones Brand and Contemporary Brands

## 3 FY2013 PRIORITIES

David Jones will continue to invest in its people and has in progress a number of initiatives for implementation in FY2013.

# DAVID JONES IS COMMITTED TO PROTECTING THE HEALTH, SAFETY AND WELFARE OF ALL EMPLOYEES, CONTRACTORS, VISITORS AND CUSTOMERS

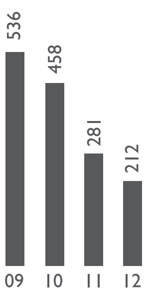
## 1 COMMITMENT TO SAFETY

David Jones is committed to ensuring the safety and wellbeing of all employees, contractors, visitors and customers. The business has maintained and strengthened its focus on creating a safe workplace by encouraging individuals at all levels of the organisation to take care in relation to personal safety and the safety of others. David Jones is committed to safety and continues to work towards achieving an incident-free and injury-free workplace.

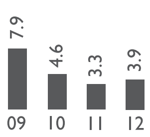
This commitment is supported by the "SafetyFirst@davidjones" management system and the Company's safety programs, the success of which can be demonstrated through continual improvement in David Jones' OH&S performance. The aim of these measures is to integrate safety into all areas of the business.

## 2 SAFETY PERFORMANCE

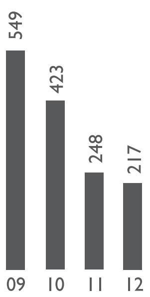
David Jones continued to improve its safety performance in FY2012. The number of medical treatment injuries and workers compensation claims continued to decline against previous years and the national average score for OH&S audits also improved in FY2012, demonstrating the effectiveness of the "SafetyFirst@davidjones" management system. This performance also reflects efforts of team members to put "SafetyFirst" in daily tasks and activities, by identifying and controlling hazards that have the potential to cause incidents and injuries.




**Number of Medical Treatment Injuries (FY2009 – FY2012)**




**Lost Time Injury Frequency Rate (FY2009 – FY2012)**
Per million work hours




**Number of Workers Compensation Claims (FY2009 – FY2012)**

## 3 DAVID JONES SAFETY PROGRAM

### 3.1 Excellence Award

The "SafetyFirst@davidjones" Excellence Award for FY2012 has been awarded to the Doncaster (VIC) store, in recognition of excellence in safety leadership and performance. The Doncaster store maintained a strong focus on injury management and implementation of the "SafetyFirst@davidjones" management system.

### 3.2 Safety Information Management system

A key focus in FY2012 has been the continued development of David Jones' web-based Safety Information Management System. Once deployed, the system will consist of the following modules: Incident/Hazard and Investigation; Case and Claims Management; Risk Management; Audit and Inspections; and Training.

The first module (Incident, Hazard and Investigation) was implemented in all stores in April 2012. This module provides an on-line system to support the reporting of incidents and the completion of incident investigations, risk assessments and associated corrective actions.

More than 100 management personnel received instructor-led, PC-based training to ensure competence with the new system. As part of the launch, a further 700 end-users were also provided with training.

The second module (Case and Claims Management) focuses on the management of information related to workers compensation claim files, claim transactions and payments as well as Return to Work Plans for work related and non-work related injuries. This module will be used by safety and injury management practitioners and was also implemented in FY2012.

### 3.3 Training and development

In addition to training provided in the implementation of its Safety Information Management System, David Jones also conducts annual safety training for all employees in its stores and fulfilment centres. This training focuses on core compliance training, safety accountabilities, hazard and risk management and injury management training. All team members also receive training through standard Job Safety Analysis and Work Method Statements which are integrated into daily tasks and activities.

David Jones' training program has been designed to promote and support a culture of safe work practice and ensure that all

team members have the necessary safety information, instruction and training to complete their job role.

#### 4 FY2013 PRIORITIES

Ongoing improvement in safety performance and systems continues to be a key focus for David Jones. In FY2013, David Jones will continue implementation of its Safety Information Management System, to improve the efficiency and reporting capabilities of safety and injury management activities.

David Jones also plans to transition its key performance indicator for OH&S from Lost Time Injury Frequency Rate (LTIFR) to Total Recordable Injury Frequency Rate (TRIFR), enabling the business to measure and monitor medical treatments, in addition to lost time injuries. This change reflects the Company's ongoing commitment to the reduction of hazards, which will help achieve its vision of minimising the severity of injuries and illness to all employees, contractors, visitors and customers, across all David Jones' locations.

## DAVID JONES CONTINUES TO SUPPORT THE COMMUNITY AT LARGE THROUGH CONTRIBUTIONS TO ITS PHILANTHROPIC PARTNERS, WITH PARTICULAR FOCUS ON WOMEN AND CHILDREN'S HEALTH

### 1 COMMITMENT TO THE COMMUNITY

David Jones is committed to building strong partnerships with organisations that benefit the Australian community and meet real social needs, in particular those focused on cancer-related issues for women and children.

In December 2011, David Jones was the recipient of the 'Leadership in Corporate Giving' award from Research Australia in recognition of the continuous support and fundraising efforts made for our philanthropic partners.

During the financial year, David Jones, its customers and employees raised funds of $557,771.

### 2 WOMEN'S HEALTH

#### 2.1 National Breast Cancer Foundation (NBCF)

*Total donation of $402,997*

David Jones is a Diamond Partner of the National Breast Cancer Foundation. Zero deaths from breast cancer by 2030 is an ambitious goal for the NBCF but one that David Jones is passionate about supporting through fundraising initiatives that support research programs.

The total donation of $402,997 was achieved through the following activities.

*Shop Pink Donation Day*
*Donation of $220,000*

David Jones hosted its third annual Shop Pink Donation Day on Thursday, 6 October 2011, when the amount of the profits from all sales in all stores was donated to the NBCF. Since its inception in 2009, David Jones' Shop Pink initiative has raised over $2 million in support of the NBCF.

*The Rose Clinics*
*Donation of $100,000*

David Jones' breast screening program, The Rose Clinic, offers free breast screening services using state of the art mammography equipment for women over the age of 40. Rose Clinics are located in a number of flagship stores, including Elizabeth Street (NSW), Bourke Street Mall (VIC) and QueensPlaza (QLD).

On 16 September 2011, the QueensPlaza (QLD) Rose Clinic was officially launched. This new partnership with Breast Screen Queensland has already delivered positive results, attracting women that work and live in the city to this new and convenient location in Brisbane's CBD.

In the past year, 15,000 women have been screened at the David Jones' Rose Clinics.

The Company's breast screening expansion strategy is on schedule to provide a national service, with the launch of a Rose Clinic in the Hay Street Mall (WA) store later in 2012, followed by Adelaide Central Plaza (SA) in 2013.

*Pink Ribbon Sales*
*Donation of $59,958*

Throughout the month of October 2011, Pink Ribbon merchandise was sold in all David Jones stores on behalf of the NBCF. David Jones' team members also contributed to this initiative through their own donations and fundraising activities.

*Charity Bears Sales*
*Donations of $23,039*

All proceeds from the sale of the David Jones' Charity Bears also raise monies for the NBCF. The first Charity Bear (launched in 2002) was Theodore followed by Hugo, Alice, Charlotte, William, Grace and Annabelle.

#### 2.2 Look Good Feel Better

*Total donation of $32,950*

David Jones is proud to acknowledge and support the work carried out by the cosmetic industry through the 'Look Good Feel Better' initiative. David Jones contributed $32,950 to this campaign in FY2012, which assists in improving the quality of life of cancer patients during treatment.

## 3 CHILDREN'S HEALTH

### 3.1 Children's Cancer Institute of Australia (CCIA)

*Total contribution of $50,000 (Research Grant)*

David Jones is a key supporter of CCIA's research into Neuroblastoma and the research programs conducted by Professor Michelle Henderson under the esteem of Professor Michelle Haber, Executive Director of the CCIA. Developments have been made in the program and David Jones is proud to be associated with these advances.

### 3.2 Gold Ribbon Sales

*Total donation of $46,974*

Last year's Gold Ribbon Month at David Jones was the most successful to date, with 100% growth on the sale of Gold Ribbon merchandise, compared to FY2011. Employee fundraising activities also contributed to this result.

## 4 OTHER CHARITIES

### 4.1 The Great Barrier Reef Foundation

*Total donation of $12,850*

David Jones is committed to becoming more environmentally sustainable. This commitment extends to helping to protect the iconic Great Barrier Reef, and preserving our natural heritage for future generations.

### 4.2 Talent Development Project

*Total donation of $10,000*

David Jones continues to support young Australian talent through its contribution to the Talent Development Program. This program seeks to identify and provide career opportunities to young performers and songwriters with a desire to work in Australia's entertainment industry.

### 4.3 Sydney Children's Hospital Foundation

*Total donation of $2,000*

'On Seven, David Jones' was this year's exclusive location for the Sydney Children's Hospital Foundation Gold Dinner, with over $1 million raised by guests on the night.

### 4.4 Art Gallery of NSW

In February 2012, David Jones donated the David Jones Art Gallery Archive (1928–1985) to the Art Gallery of NSW, under the State Government Cultural Gifts program. The collection consists of art gallery catalogues, newspaper clippings, photographs from exhibitions and sundry correspondence between the Gallery, artists and the press, including some valuable information on the provenance of the Rodin sculptures which the Company donated to the Art Gallery of NSW in 2001. Management of this collection by the Art Gallery of NSW will ensure that the Archive is preserved for the future.

### 4.5 Oz Harvest

Oz Harvest is a not-for-profit organisation that facilitates the donation of surplus food from business to the most disadvantaged in the community. After a successful pilot study at its Market Street (NSW) store, David Jones aims to roll-out the program to other stores in FY2013.

### 4.6 CCIA Dividend Reinvestment Plan

Through the David Jones Dividend Reinvestment Plan, shareholders donated 10,632 David Jones shares to CCIA. These shares were purchased using the residual balances donated by shareholders from individual DRP entitlements.

## 5 FY2013 PRIORITIES

David Jones will continue to strive towards an integrated approach to corporate social responsibility and aims to ensure that its community program remains relevant with its key stakeholders.

## DAVID JONES IS COMMITTED TO RESPONSIBLE RETAILING AND REQUIRES ITS SUPPLIERS TO MANAGE ENVIRONMENTAL AND SOCIAL IMPACTS ALONG ITS SUPPLY CHAIN

David Jones is committed to responsible management of environmental and social impacts along its supply chain.

To meet this commitment, David Jones has imposed obligations on its overseas suppliers to ensure that conditions are "at least as favourable as Australian award conditions." Suppliers must also ensure that merchandise supplied to David Jones is produced under conditions that meet Australian labour standards in relation to anti-discrimination protections, equal opportunity employment, safe working conditions, reasonable pay and conditions, freedom of association and child labour.

To ensure that Australian manufacturers also meet these standards, David Jones has been a co-signatory to the Ethical Clothing Code of Practice since 2002.

David Jones relies on its suppliers and agents to ensure that producers comply with these conditions. In the event that the Company becomes aware of non-compliance, David Jones can reserve its rights to withdraw affected merchandise from sale, on the basis that the affected supplier would be in breach of its contractual obligations.

# DAVID JONES IS COMMITTED TO MANAGING ITS OPERATIONS IN AN ENVIRONMENTALLY SUSTAINABLE MANNER

## 1 COMMITMENT TO THE ENVIRONMENT

David Jones is committed to managing its own operations in an environmentally sustainable manner and will meet this commitment by:

- investing in efficiency measures and driving behavioural change to reduce the impact that the business has on the environment;
- embedding environmental sustainability into the corporate cultural of the organisation; and
- developing robust management systems to ensure transparency and confidence in environmental reporting.

## 2 ENVIRONMENT STRATEGY

Concurrent to the development of the Company's Strategic Directions Plan, David Jones developed the next evolution of its environment strategy, outlining how the business plans to execute its environment policy in coming years.

David Jones' environment strategy comprises four strategic objectives, as outlined below.

1. Improve environmental outcomes, by
   - reducing greenhouse gas emissions,
   - protecting and conserving natural resources, and
   - optimising water use.
2. Motivate cultural change, by encouraging behavioural change and then by integrating sustainability into decision making at all levels of the organisation.
3. Engage with employees, customers and shareholders, to ensure that interested stakeholders are able to access information about David Jones' environmental impacts and initiatives, and ensure that the Company's approach to sustainability reflects stakeholder expectations.
4. Meet and, where viable, exceed the Company's mandatory and voluntary reporting obligations.

This section provides an overview of key developments in relation to the implementation of David Jones' environment strategy during FY2012.

### 2.1 Improve environmental outcomes

To meet its aim of reducing greenhouse gas emissions, David Jones has continued to invest in its energy efficiency program. Over the past year, the business invested $4.9 million in 34 capital projects, launched new policies and procedures for energy management, and developed additional reporting tools to identify opportunities to reduce consumption through behavioural change. In developing its environment strategy, the business has also reviewed 20 incremental efficiency projects to help determine its investment roadmap for future abatement projects.

The aim of these measures is to mitigate the risk posed by rising energy costs (including the impact of the carbon pricing scheme) by reducing the amount of greenhouse gas emissions generated as a result of electricity consumption. However, the energy efficiency program also provides an opportunity to enhance stakeholder engagement and corporate reputation.

Implementation of the environment strategy enables similar opportunities for David Jones to reduce emissions from the consumption of natural gas and fuel, and reloads of synthetic gases used in refrigeration and air conditioning.

To help protect and conserve natural resources, the business refocused efforts on its waste minimisation programs through FY2012 while continuing to meet its obligations to the Australian Packaging Covenant (APC). In implementing its environment strategy in coming years, David Jones will retain its focus on waste management and engage its stakeholders in relation to sustainable packaging design, carry bags and paper-based processes and materials. The business also plans to continue consulting widely to manage other environmental impacts, including water consumption.

Additional information in relation to initiatives implemented in FY2012 is outlined in Section 3 of this report.

### 2.2 Motivate cultural change

David Jones recognises that decisions made by individuals can affect the extent to which the Company impacts the environment. While investment in efficiency measures will remain central to David Jones' environment strategy, there is an opportunity to deliver short-term benefit and affect sustained cultural change by influencing these decisions.

To help realise this opportunity, David Jones has developed and launched an internal campaign called "rethink." The campaign (comprising a logo, tagline and graphics package) aims to consolidate all environmental programs and communications under one banner, to help increase awareness of David Jones' environmental activities and engage employees on an emotional level, so as to influence discretionery decisions and prompt behavioural change.

Beyond the "rethink" campaign, David Jones also plans to implement a series of additional measures to help motivate cultural change, including:

- annual audits and benchmarking to identify best practice stores and processes, and use the Company's performance-based culture to drive incremental improvement;
- reward and recognition for good (and improving) results; and
- influencing established development programs and behavioural competencies, to ensure that individuals within the business have the necessary skills to support David Jones' transition to an environmentally sustainable business model.

**2.3 Engage with stakeholders**

Engaging with employees, customers and shareholders is a key component of David Jones' environment strategy.

Having initially focused on increasing the quantity and quality of information available to all stakeholders through David Jones' corporate website, the key focus in FY2012 has been to engage more broadly with its employees, through two-way communications and new environmental reporting, rewards and recognition.

Opportunities to enhance employee engagement, identified as a result of the "Your Say Our Future" survey in FY2011, have also been implemented. These measures include:

- The launch of the new Quarterly Environmental Scorecards, which rank stores' performance in three key areas: energy management, waste and recycling, and tote bag sales.
- The new "Friend of the Environment" Award, which was awarded for the first time at Company's annual conference in August 2012, to the team at Burwood (NSW) for best overall environmental performance in FY2012.
- A series of roundtable events held to commemorate World Environment Day in June 2012, which provided an opportunity for interested employees to engage directly with industry experts and discuss sustainability trends.
- Enhanced feedback mechanisms, which have enabled employees to provide suggestions about the ways in which David Jones could become more sustainable, including suggestion boards provided in the lead-up to this year's Earth Hour, which yielded 377 individual suggestions from employees.

**2.4 Report performance**

David Jones made the following disclosures in FY2012:

- The Company's second submission under the National Greenhouse and Energy Reporting (NGER) scheme, disclosing total energy consumption and emissions data to the Federal government.
- The annual update to the APC, confirming that all actions outlined in David Jones' own APC action plan for the 2011–12 period had been completed on schedule.

The business also made its second voluntary submission to the Carbon Disclosure Project (CDP) in FY2012. The CDP compiles carbon emissions data and information about how business is responding to risks and opportunities posed by climate change, by consolidating responses to its annual survey of more than 3,000 listed organisations in 60 countries.

Additional information about each of these disclosures has been made available on the "Community and Environment" webpage, at David Jones' corporate website.

DAVID JONES

reduce reuse recycle **rethink**

## 3 ENVIRONMENTAL MANAGEMENT

This section of the report provides an overview of David Jones' management of its environmental impacts and initiatives in its stores, support centre offices and fulfilment centre, for the FY2012 period.

In defining its key focus areas (KFA) for environmental management, David Jones initially identified and classified all direct environmental impacts, as outlined below. Because none of these aspects meet the Company's standard materiality thresholds under its risk management methodology, David Jones has defined its KFA on the basis of its ability to influence outcomes in these areas and/or its obligation to disclose impacts in these areas.

| Environmental Impacts and Key Focus Areas, by Strategic Goal | GENERATES GREENHOUSE GAS EMISSIONS | IMPACT ON NATURAL RESOURCES | IMPACT ON WATER RESOURCES | DISCLOSURE OBLIGATION | REGULATORY EXPOSURE | MATERIAL COST INCREASES |
|---|---|---|---|---|---|---|
| **Goal – Reduce Greenhouse Gas Emissions** | | | | | | |
| Energy Consumption | ✔ | | | ✔ | ✔ | ✔ |
| Fuel Consumption | ✔ | | | ✔ | ✔ | |
| Synthetic Gas Reloads | ✔ | | | ✔ | ✔ | ✔ |
| Corporate Travel | ✔ | | | ✔ | | ✔ |
| **Goal – Protect and Conserve Natural Resources** | | | | | | |
| Waste Management and Recycling | ✔ | ✔ | | ✔ | ✔ | ✔ |
| Packaging | | ✔ | | ✔ | ✔ | |
| Carry Bags | | ✔ | | | | ✔ |
| Office Supplies and Stationery | | ✔ | | | | ✔ |
| Catalogues and Collateral | | ✔ | ✔ | | | |
| **Goal – Optimise Waste Use** | | | | | | |
| Water Consumption | | | ✔ | ✔ | | |

### 3.1 Energy Management

Like many retailers, electricity consumption represents David Jones' single-largest source of greenhouse gas emissions and the most significant opportunity to reduce environmental impacts. David Jones consumes electricity in all stores, offices and fulfilment centres, with natural gas also consumed in 25 stores for the purposes of heating and cooking.

| ACTIVITY | FY2012 – BASE CONSUMPTION | FY2012 – ENERGY CONSUMPTION | FY2012 – GHG EMISSIONS (CO2e) |
|---|---|---|---|
| Electricity Consumption | 100,578 MWh | 362,082 GJ | 92,830 tonnes |
| Natural Gas Consumption | 18,080 GJ | 18,080 GJ | 928 tonnes |
| | | 380,162 GJ | 93,758 tonnes |

Consumption and emissions within David Jones' operational control

Since FY2006, the business has been actively managing its consumption and investing in energy efficiency projects to reduce usage and emissions to mitigate the impact of rising electricity tariffs and to meet stakeholder expectations.

Electricity consumption reduced 6.9% to 100.6 Gigawatt hours in FY2012, contributing to the first year-on-year decline in total energy costs since FY2004. The reduction in usage also reduced David Jones' Scope 2 greenhouse gas emissions to 92.8 kilo tonnes of carbon dioxide equivalents (CO2e), the equivalent to 49.7 tonnes per $million of sales.

Since FY2006, David Jones has reduced consumption by 21.0%. Consequently, costs for FY2012 were $4.1 million lower than would have been the case if David Jones had not taken action to mitigate the risk posed by rising energy prices.

These results can be attributed the 29.4% improvement in energy efficiency over the past six years, and an increase in compliance to energy business rules over the past six months.

Specific initiatives that have impacted these results include:

- New business rules for all facilities, outlined in policy and procedure documentation for energy management;
- Demonstrable behavioural change following implementation of environmental scorecards, weekly energy reporting and monthly desktop audits;
- Installation of energy efficient LED technology to replace 45,000 halogen spotlights in 23 stores, which reduced total usage by approximately 4.0% from the previous year;
- Major lighting upgrades at Wollongong (NSW), Warringah Mall (NSW) and Marion (SA), resulting in 17–31% reductions in total consumption in affected stores; and
- The continued rollout of the Building Management System (BMS) program with complementary efficiency measures for air conditioning. Since the initial implementation into 16 stores in FY2008, the BMS platform has now been installed into 28 stores, with plans for further expansion in FY2013.

### 3.2 Waste Management

David Jones generates a range of waste materials from its operations, including: general waste (distribution packaging; consumer packaging; waste from kitchens, lunchrooms and washrooms) as well as hard rubbish from the disposal of end-of-life assets, collateral and electronic waste. The scope of this section of the report covers 29 sites where David Jones is responsible for the collection and management of waste materials.

The effective diversion of waste material from landfill represents a significant opportunity for retailers to improve environmental outcomes. In the time since David Jones launched its waste minimisation program in FY2007, the business has reduced the amount of waste sent to landfill by 54.1%. In FY2012, David Jones reduced landfill emissions by a further 574 tonnes (to 2,749 tonnes) and recycled 1,669 tonnes of cardboard and plastics.

Recent results can be attributed to a renewed focus on waste and recycling programs over the past year, including:

- new business rules for managing the waste stream, including an expansion of the policy to include more environmentally-sound disposal methods for more materials;
- regular waste management audits conducted in stores, which aim to measure and improve adherence to these rules;
- the outcome of shared benchmarking analysis conducted in FY2011, which aimed to align all parts of the business with best practice stores and processes; and
- improvements in recycling rates following disclosure of the benchmarking analysis and launch of the environmental scorecards, leveraging the Company's performance-based culture to drive continuous improvement.

These improvements have been supported by the broader business. Over the past five years, David Jones has also:

- Donated 210 pallets of end-of-life visual merchandising props to charities and not-for-profit organisations;
- Recycled 123 tonnes of metal fixtures and fittings;
- Collected 16,970 mattresses from customer homes, for recycling and reuse; and
- Recycled 46.5 tonnes of e-waste, defined as end-of-life phones, monitors, desktop computers, laptops, printers, photocopiers and fax machines.

Reductions in waste volumes and increases in recycling rates have contributed to a reduction of $800,000 in waste management costs. Work will continue in FY2013, with the aim of minimising the amount of recyclable materials sent to landfill, which currently represent 30–40% of waste collections.

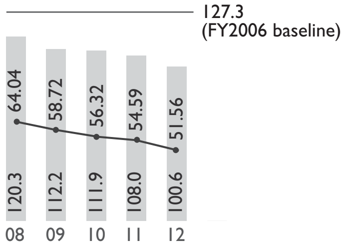
### 3.3 Packaging

After an eight-year association with the NPC, David Jones committed itself to the new APC in FY2011 with the submission of a two-year action plan for the 2011–12 period. Subject to other priorities, the business aims to submit a subsequent four-year action plan to the APC in March 2013.

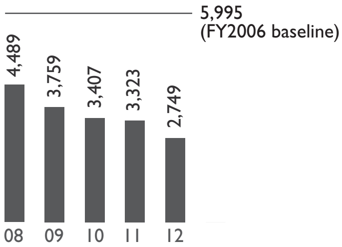
As a signatory to the APC, David Jones has an obligation to conduct packaging reviews of its own-brand merchandise and to collaborate with its branded suppliers to improve life-cycle impacts of packaging. The obligation covers all distribution and consumer packaging, as well as carry bags and packaging associated with e-commerce and David Jones' Gift Registry.

In its annual update to the APC, submitted in March 2012, David Jones confirmed that all actions due for completion by that time had been successfully completed, including development of a policy and procedure document, outlining how the business plans to apply the APC's *Sustainable Packaging Guidelines* to the design of its own-brand products.

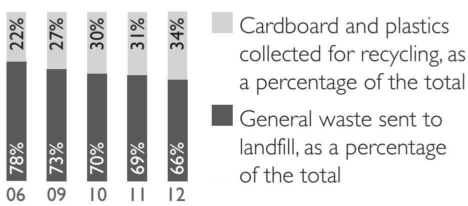
In relation to carry bags, David Jones conducted reviews of its plastic bags and reusable tote bags over the past year. To encourage more customers to adopt alternatives to plastic, the business launched a new sustainable tote (made from cotton and




**Electricity Consumption / Energy Efficiency (FY2008–FY2012)**
Annual GWh against the FY2006 baseline and watts per square metre, per average trading hour




**Waste to Landfill (FY2008 – FY2012)**
Annual weight (tonnes) of general waste sent to landfill against the FY2006 baseline




**Recycling Rates (FY2009–FY2012)**
Breakdown of total waste material collected (general waste to landfill compared to recycling) against the FY2006 baseline

jute) and plans to launch two new bags in FY2013: a tote bag made from recycled plastic bottles and a premium tote.

To help reduce the impact of plastic bags, the business will launch an awareness campaign under the "rethink" brand to ensure that employees provide the most appropriate bag for each transaction. The business will also continue to engage its suppliers to ensure that its range of bags is fit-for-purpose.

### 3.4 Transport and Travel

David Jones generates greenhouse gases as a result of transportation activities from its fulfilment centre and as a result of corporate travel.

| ACTIVITY | FY2012 – BASE CONSUMPTION | FY2012 – GHG EMISSIONS (CO2e) |
|---|---|---|
| Fuel Consumption from Direct Transport | 84,801 litres | 228 tonnes |
| Emissions from Corporate Travel* | 7,557,221 km | 909 tonnes |
| | | 1,083 tonnes |

* Data relates only to travel booked through approved corporate travel provider

Unlike local and international peers, David Jones does not operate a centralised distribution centre, resulting in relatively low emissions from direct transportation activities. Since load efficiency measures were implemented in FY2009, the business has sustained its 15% reduction in fuel consumption and greenhouse gas emissions from transportation have remained constant at a range between 200–250 tonnes.

The Company also monitors its corporate travel profile, relying on information provided by its airline partners to track emissions from interstate and overseas flights. In FY2012, greenhouse gas emissions from travel totalled 909 tonnes.

### 3.5 Refrigerant Gases

David Jones requires refrigerant gases for the operation of chilled water plant for air conditioning in 27 stores, major refrigeration plant in five Foodhall stores and refrigeration equipment in a further 12 stores, which operate cafes.

| ACTIVITY | FY2012 – RELOADS OF REFRIGERANT GAS | FY2012 – GHG EMISSIONS (CO2e) |
|---|---|---|
| Reloads – Air Conditioning Plant and Equipment | 953 kg | 1,241 tonnes |
| Reloads – Refrigeration Plant and Equipment | 805 kg | 2,573 tonnes |
| | 1,758 kg | 3,814 tonnes |

As a result, reloads of synthetic gases represent 3.9% of total emissions, which is relatively high in comparison to other retailers. This variance can be attributed to the use of R404a in David Jones' Foodhall stores and to the use of R134a in major air conditioning plant.

Through its service providers, David Jones implemented changes to maintenance procedures for air conditioning and commercial refrigeration over the past 12 months, reducing greenhouse gas emissions from refrigerant gases to 3,814 tonnes of CO2e.

### 3.6 Water Management

Subject to other business and environmental priorities, David Jones aims to develop a water management plan that ensures the efficient and sustainable use of water resources.

In comparison to other retailers and to other companies operating in more water-intensive industries, David Jones is a relatively small consumer of water. Benchmarking analysis estimates water consumption to be in the range of 400–600 mega litres per annum, based on the square meter consumption in those buildings that are directly metered.

## 4 ENVIRONMENTAL GOVERNANCE PRINCIPLES

David Jones' management will continue to ensure oversight of sustainability issues, initiatives and disclosures by:

– updating the Company's risk matrix to reflect the changing macro environment and stakeholder expectations;

– providing updates to the Chief Executive Officer and Managing Director, and Executive Committee; and

– conducting external verification on an annual basis, to ensure confidence in environmental disclosures.

## 5 ENVIRONMENTAL REGULATION

David Jones takes a responsible approach in relation to the management of environmental matters.

The Company 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 Company Entity by any government agency.

The NGER Act requires David Jones to report its annual greenhouse gas emissions and energy use. David Jones 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.

## 6 FY2013 PRIORITIES

Execution of David Jones' environmental strategy will continue through FY2013 with the implementation of incremental efficiency and cultural measures, and development of action plans to ensure continuity of delivery across the business.

The business will also focus on engagement measures that, over time, have the potential to drive cultural change and ensure that environmental sustainability is integrated in tactical and strategic decision making, across the business.

# 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 A merica. 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.

**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.

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 | DatePaid / 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%.

## 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.

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:

| | DIRECTORS' MEETINGS | | COMMITTEE MEETINGS | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | AUDIT COMMITTEE MEETINGS | | REMUNERATION AND NOMINATIONS COMMITTEE MEETINGS | | PROPERTY COMMITTEE MEETINGS[4] | |
| DIRECTOR | Held[1] | Attended | 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' 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.

## 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 |

## 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.

Signed in accordance with a resolution of the Directors:

Robert Savage
Chairman

Paul Zahra
Chief Executive Officer
and Managing Director

Sydney, 19 September 2012

## 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)

CONTENTS

## 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.

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.

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 53 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.

## 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 |
| *Appointments:* | | |
| Steve Vamos | Independent Non-executive Director | 5 June 2012 – 28 July 2012 |
| Retirements: | | |
| 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 |
| *Appointments:* | | |
| Brad Soller | Chief Financial Officer | 2 April 2012 – 28 July 2012 |
| Donna Player | Group Executive – Merchandise | 4 July 2012 – 28 July 2012 |
| *Cessation of employment:* | | |
| 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.

## 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:

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

[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.

## 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.

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:

| | | | HURDLES | | QUALIFIERS | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Role | Annual STI Target (% of FR) | Maximum STI (% of FR) | 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% | | PAT3 | Development of Omni Channel strategy, plan & delivery of FY2012 initiatives | ✔ | | ✔ | | | ✔ |

[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:

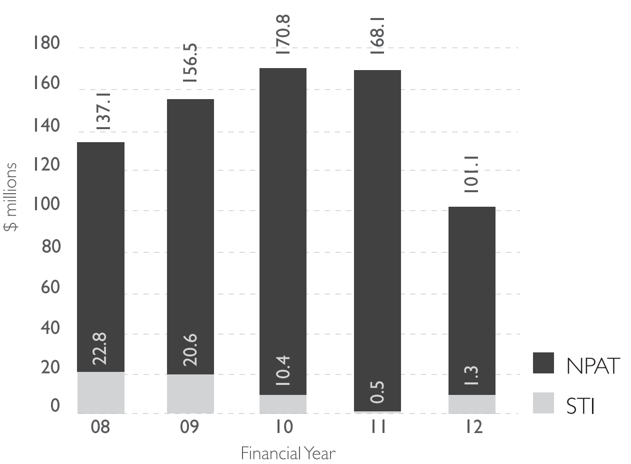
| Executive | Target STI | STI outcome ($) | % of STI Total achieved | Comments |
|---|---|---|---|---|
| M Durbin | $213,750 | $45,283 | 21% | – Related to the achievement of the FS EBT target.<br>– No other measures were achieved. |
| D Robinson | $160,000 | $96,000 | 60% | – Related to the achievement 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.

**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.




Relationship between STI Payments and PAT Growth

## 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.

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.<br>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.<br>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.<br>100% of PAT rights vest at 10% PAT growth.<br>Pro-rata vesting is achieved between 5% and 10% PAT growth. | 50% of TSR rights vest at 50th percentile performance against the peer group.<br>100% of TSR rights vest at 75th percentile performance against the peer group.<br>Pro-rata vesting is achieved between 50th percentile and 75th percentile performance. |
| Performance outcome | Not met | 55th percentile |
| Retest facility | No | No |
| Vesting outcome | No rights vested | 61% vested (39% forfeited) |
| Allocation date | Not applicable | 19 September 2012 |

### 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 75th | 100% |
| FY2010 | $4.80 | 30.0 | 54.3% | Above 75th | 100% |
| FY2011 | $3.00 | 28.0 | 48.6% | Above 75th | 100% |
| FY2012 | $2.40 | 17.5 | (6.1)% | 55th | 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:** | *TOTAL PAT* | *58%* | *60%* | *(40)%* | |
| | | *TOTAL TSR* | *42%* | *81%* | *(19)%* | |

[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.

### 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.

| | | % OF REMUNERATION (At target performance) | | |
|---|---|---|---|---|
| | Position | 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;

– 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).<br>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.<br>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.<br>There is no re-test facility. |
| Performance weighting | 50% of total allocation of rights weighted to TSR.<br>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.<br>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:<br>– 50% of TSR rights vest if the Company achieves 51st percentile performance.<br>– 100% of TSR rights vest if the company achieves 75th percentile performance.<br>– 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:<br>– 50% of EPS rights vest if 5% compound EPS growth achieved.<br>– 100% of EPS rights vest if 10% compound EPS growth achieved.<br>– 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).<br>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. |

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 | The Reject Shop Limited | APN News & Media Limited |
| Harvey Norman Holdings Limited | Metcash Limited | Fairfax Media Limited |
| JB Hi-Fi Limited | Premier Investments Limited | Seven West Media Limited |
| Kathmandu Holdings Limited | Wesfarmers Limited | Southern Cross Media Group Limited |
| Myer Holdings Limited | Woolworths Limited | Ten Network Holdings Limited |
| Nick Scali Limited | Billabong International Limited | Treasury Wine Estates Limited |
| OrotonGroup Limited | G.U.D Holdings Limited | Flight Centre Limited |
| Pacific Brands Limited | Super Retail Group Limited | Coca-Cola Amatil 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<br>(Chief Executive Officer and Managing Director)<br>(Rolling contract from previous senior executive role continues to apply) | If termination without cause, 12 months' notice is required.<br>Fixed Remuneration would be paid for 12 months (reflecting notice provisions).<br>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.<br>Entitled to Fixed Remuneration up to termination date.<br>STI and LTI: entitled to STI and LTI Plan incentives that have accrued to date of resignation. |
| Executives (including Chief Financial Officer)<br>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. |

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 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Cash Salary | Cash Bonus (STI)[1] | Non Monetary Benefits[2] | Other[3] | Super | Long Service Leave | Termination Benefits[4] | LTI Plan Rights[5] | | Percentage of remuneration in LTI Plan Rights | Percentage of remuneration Performance related |
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | % | % |
| **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** | | |

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).

### REMUNERATION OF EXECUTIVES FOR THE YEAR ENDED 30 JULY 2011

| | Short-Term Employee Benefits | | | | | Post-Employment Benefits | Other Long-Term Benefits | | Share-Based Payment | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Cash Salary[1] | Cash Equivalent of Dividends[2] | Cash Bonus (STI) | Non Monetary Benefits | Other | Super | Long Service Leave Accrual | Termination Benefits | LTI Plan Rights[3,4] | Total Compensation | Percentage of remuneration in LTI Plan Rights | Percentage of remuneration Performance related |
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | % | % |
| **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 Garnsey | 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** | | |

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 Garnsey 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.

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.

### 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.

## 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 | Granted as Remuneration[1] | Vested and converted during the Year | Forfeited/ Lapsed during the Year[2] | Holding at 28 July 2012[3] | Fair Value of Right (TSR)[4] | Fair Value of Right (NPAT)[4] |
|---|---|---|---|---|---|---|---|---|
| | | Number | Number | Number | Number | Number | $ | $ |
| **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 |
| *Value vested/lapsed*[5] | | | | *$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 |
| *Value vested/lapsed*[5] | | | | *$4,901,250* | *($417,000)* | | | |

| Name | LTI Plan | Holding at 30 July 2011 | Granted as Remuneration[1] | Vested and converted during the Year | Forfeited/ Lapsed during the Year[2] | Holding at 28 July 2012[3] | Fair Value of Right (TSR)[4] | Fair Value of Right (NPAT)[4] |
|---|---|---|---|---|---|---|---|---|
| | | Number | Number | Number | Number | Number | $ | $ |
| **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 |
| *Value vested/lapsed*[5] | | | | *$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 |
| *Value vested/lapsed*[5] | | | | *$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 |
| *Value vested/lapsed*[5] | | | | *$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 |
| *Value vested/lapsed*[5] | | | | *$378,658* | *($226,848)* | | | |
| 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 |
| *Value vested/lapsed*[5] | | | | *$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 |
| *Value vested/lapsed*[5] | | | | *$250,583* | *($337,771)* | | | |

| Name | LTI Plan | Holding at 30 July 2011 | Granted as Remuneration[1] | Vested and converted during the Year | Forfeited/ Lapsed during the Year[2] | Holding at 28 July 2012[3] | Fair Value of Right (TSR)[4] | Fair Value of Right (NPAT)[4] |
|---|---|---|---|---|---|---|---|---|
| | | Number | Number | Number | Number | Number | $ | $ |
| 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 |
| *Value vested/lapsed*[5] | | | | *$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 |
| *Value vested/lapsed*[5] | | | | *$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 |
| *Value vested/lapsed*[5] | | | | *$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 20012 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.

## 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. |

# INDEX TO FINANCIAL STATEMENTS

For the 52 weeks ended 28 July 2012 and 30 July 2011
**David Jones Limited and its controlled entities**

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 28 July 2012 and 30 July 2011
**David Jones Limited and its controlled entities**

| | 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.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 28 July 2012 and 30 July 2011
**David Jones Limited and its controlled entities**

| | 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.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

**David Jones Limited and its controlled entities**

| | Note | Share Capital $000 | Cash Flow Hedge Reserve $000 | Share Based Payments Reserve $000 | Retained Earnings $000 | Total $000 |
|---|---|---|---|---|---|---|
| **For the 52 weeks ended 30 July 2012** | | | | | | |
| **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** |
| **For the 52 weeks ended 30 July 2011** | | | | | | |
| **Balance as at 1 August 2010** | | 502,199 | (1,337) | 68,071 | 175,305 | 744,238 |
| Profit for the period | | – | – | – | 168,139 | 168,139 |
| Other comprehensive income, net of tax | | – | 351 | – | – | 351 |
| Total comprehensive income for the period | | – | 351 | – | 168,139 | 168,490 |
| 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
**David Jones Limited and its controlled entities**

| | 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:

| | Note | 2012 $000 | 2011 $000 |
|---|---|---|---|
| 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

**David Jones Limited and its controlled entities**

## 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.

### ACCOUNTING POLICY

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 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.

For the 52 weeks ended 28 July 2012 and 30 July 2011
**David Jones Limited and its controlled entities**

## 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:<br>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:<br>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 |

## 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 |

For the 52 weeks ended 28 July 2012 and 30 July 2011
**David Jones Limited and its controlled entities**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### 1.5 New accounting standards and interpretations continued

| Reference | Title | Summary | Application date of standard | Impact on Consolidated Entity's Financial Statements | Application date for Consolidated Entity for Financial year ending: |
|---|---|---|---|---|---|
| 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 |

### 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

### 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

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.

### 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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

### 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.

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

### 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
CONTINUED

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.

### 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.

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| | 2012 $000 | 2011 $000 |
|---|---|---|
| **2. OTHER INCOME** | | |
| 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 |

## 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 OPERATING SEGMENTS: | Department Stores $000 | Financial Services $000 | Unallocated $000 | Consolidated $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 |

For the 52 weeks ended 28 July 2012 and 30 July 2011
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**4. SEGMENT REPORTING** CONTINUED

| FOR THE 52 WEEKS ENDED 30 JULY 2011 OPERATING SEGMENTS: | Department Stores $000 | Financial Services $000 | Unallocated $000 | Consolidated $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 |

| | **2012 $000** | 2011 $000 |
|---|---|---|
| **5. INCOME TAX EXPENSE** | | |
| **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 |

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **5. INCOME TAX EXPENSE** CONTINUED | | |
| 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) |

**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.

For the 52 weeks ended 28 July 2012 and 30 July 2011
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| | Cents Per Share | Total Amount $000 | Date of Payment |
|---|---|---|---|
| **6. DIVIDENDS** | | | |
| 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 |

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.

| | 2012 Cents Per Share | 2011 Cents Per Share |
|---|---|---|
| **7. EARNINGS 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.

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **8. CASH AND CASH EQUIVALENTS** | | |
| 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.

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| | 2012 $000 | 2011 $000 |
|---|---|---|
| **9. RECEIVABLES** | | |
| **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.

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **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.

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **10. INVENTORIES** | | |
| Retail inventories | **279,099** | 288,850 |
| | **279,099** | 288,850 |
| **11. FINANCIAL ASSETS** | | |
| **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.

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **12. OTHER ASSETS** | | |
| **CURRENT** | | |
| Prepayments | **7,201** | 6,911 |
| | **7,201** | 6,911 |
| **NON-CURRENT** | | |
| Prepayments | **394** | 189 |
| | **394** | 189 |

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## 13. PROPERTY, PLANT AND EQUIPMENT

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

| Year ended 28 July 2012 | Land, Buildings and Integral Plant $000 | Leasehold Improvements $000 | Plant and Equipment $000 | Computer Equipment $000 | Fixtures and Fittings $000 | Work in Progress $000 | Total $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 | Land, Buildings and Integral Plant $000 | Leasehold Improvements $000 | Plant and Equipment $000 | Computer Equipment $000 | Fixtures and Fittings $000 | Work in Progress $000 | Total $000 |
|---|---|---|---|---|---|---|---|
| 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 |

## 14. INTANGIBLE ASSETS

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

| Year ended 28 July 2012 | Software $000 | Goodwill $000 | Total $000 |
|---|---|---|---|
| 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 | Software $000 | Goodwill $000 | Total $000 |
|---|---|---|---|
| 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.

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| | 2012 $000 | 2011 $000 |
|---|---|---|
| **15. DEFERRED TAX ASSETS AND LIABILITIES** | | |
| 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.

## 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<br>$000 | 2011<br>$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.

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| | 2012 $000 | 2011 $000 |
|---|---|---|
| **18. PROVISIONS** | | |
| **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.

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **19. FINANCIAL LIABILITIES** | | |
| **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.

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **20. OTHER LIABILITIES** | | |
| **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 |
| **21. CONTRIBUTED EQUITY** | | |
| 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 |

| | 2012 | 2011 |
|---|---|---|
| **Movements in the number of ordinary shares:** | | |
| 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.

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| | 2012 $000 | 2011 $000 |
|---|---|---|
| **22. RESERVES** | | |
| 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.

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **23. RETAINED EARNINGS** | | |
| 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 |

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **24. RECONCILIATION OF PROFIT AFTER INCOME TAX TO THE NET CASH FLOWS FROM OPERATIONS** | | |
| 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 |

## 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.

| | CONSOLIDATED | | DAVID JONES LIMITED | |
|---|---|---|---|---|
| | **2012 $000** | 2011 $000 | **2012 $000** | 2011 $000 |
| **Indemnities** | | | | |
| 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.

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## 25. CONTINGENT LIABILITIES CONTINUED

### 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.

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 $000 | 2011 $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 |

| 25. CONTINGENT LIABILITIES CONTINUED<br>Deed of cross guarantee continued | 2012<br>$000 | 2011<br>$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 |

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| | CONSOLIDATED | | DAVID JONES LIMITED | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **$000** | $000 | **$000** | $000 |
| **26. COMMITMENTS FOR EXPENDITURE** | | | | |
| **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.

| | **2012** | 2011 |
|---|---|---|
| | **$** | $ |
| **27. AUDITOR'S REMUNERATION** | | |
| During the financial year, the following fees were paid or payable for services provided by Ernst & Young, the auditor of David Jones Limited and it's 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 |

## 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<br>$ | 2011<br>$ |
|---|---|---|
| **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 |

For the 52 weeks ended 28 July 2012 and 30 July 2011
**David Jones Limited and its controlled entities**

## 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] | Granted as Remuneration[1] | Vested and converted during the Year | Forfeited/ Lapsed during the Year[2] | Holding at 28 July 2012[4] | Fair Value of Right (TSR)[6] | Fair Value of Right (NPAT)[6] |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | Number | Number | Number | Number | Number | $ | $ |
| 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 |
| *Value vested/lapsed*[5] | | | | *$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 |
| *Value vested/lapsed*[5] | | | | *$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 |
| *Value vested/lapsed*[5] | | | | *$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 |
| *Value vested/lapsed*[5] | | | | *$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 |
| *Value vested/lapsed*[5] | | | | *$890,960* | *($704,000)* | | | |

## 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] | Granted as Remuneration[1] | Vested and converted during the Year | Forfeited/ Lapsed during the Year[2] | Holding at 28 July 2012[4] | Fair Value of Right (TSR)[6] | Fair Value of Right (NPAT)[6] |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | Number | Number | Number | Number | Number | $ | $ |
| 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 |
| *Value vested/lapsed*[5] | | | | *$378,658* | *($226,848)* | | | |
| 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 |
| *Value vested/lapsed*[5] | | | | *$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 |
| *Value vested/lapsed*[5] | | | | *$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 |
| *Value vested/lapsed*[5] | | | | *$252,482* | *($166,800)* | | | |

For the 52 weeks ended 28 July 2012 and 30 July 2011
**David Jones Limited and its controlled entities**

## 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] | Granted as Remuneration[1] | Vested and converted during the Year | Forfeited/ Lapsed during the Year[2] | Holding at 28 July 2012[4] | Fair Value of Right (TSR)[6] | Fair Value of Right (NPAT)[6] |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | Number | Number | Number | Number | Number | $ | $ |
| 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 |
| *Value vested/lapsed*[5] | | | | *$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 |
| *Value vested/lapsed*[5] | | | | *$204,680* | *($358,800)* | | | |

Notes:

[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] Non-Executive Directors are not entitled to participate in the LTI Plan and therefore no holdings are disclosed.

[4] Rights held at 28 July 2012 will vest and convert to shares on 19 September 2012.

[5] The value of rights that have

(i) vested during the year is calculated using the weighted average share price at date of vesting.

(ii) forfeited/lapsed during the year is calculated using the closing share price as at 28 July 2012.

[6] Fair value of right as at grant date.

## 28. KMP DISCLOSURES CONTINUED

### EQUITY HOLDINGS OF KMP

#### Long Term Incentive (LTI) Plan rights holdings of KMP

#### 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] |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | Number | Number | Number | Number | Number | $ | $ |
| 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 |
| *Value vested/lapsed*[5] | | | | *$1,002,000* | *($202,500)* | | | |
| 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 |
| *Value vested/lapsed*[5] | | | | *$785,272* | *($361,052)* | | | |
| **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 |
| *Value vested/lapsed*[5] | | | | *$1,002,000* | *($90,000)* | | | |
| 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 |
| *Value vested/lapsed*[5] | | | | *$801,600* | *($72,000)* | | | |
| 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 |
| *Value vested/lapsed*[5] | | | | *$1,002,000* | *($90,000)* | | | |

For the 52 weeks ended 28 July 2012 and 30 July 2011
**David Jones Limited and its controlled entities**

## 28. KMP DISCLOSURES CONTINUED

### EQUITY HOLDINGS OF KMP

**Long Term Incentive (LTI) Plan rights holdings of KMP**

**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] |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | Number | Number | Number | Number | Number | $ | $ |
| 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 |
| *Value vested/lapsed*[5] | | | | *$340,680* | *($30,600)* | | | |
| 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 |
| *Value vested/lapsed*[5] | | | | | *($102,375)* | | | |
| 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 |
| *Value vested/lapsed*[5] | | | | | *($70,875)* | | | |
| 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 | – | – | (30,000) | 40,000 | 1.57 | 2.51 |
| | 09-12 additional offer | | | | | | | |
| | – Tranche 3 | – | 200,000 | – | – | 170,000 | 4.03 | 4.35 |
| | – Tranche 4 | – | 200,000 | – | | 200,000 | 3.88 | 4.35 |
| *Value vested/lapsed*[5] | | | | *$100,200* | *($108,000)* | | | |
| 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 |
| *Value vested/lapsed*[5] | | | | | *($81,000)* | | | |

## 28. KMP DISCLOSURES CONTINUED

### EQUITY HOLDINGS OF KMP

**Long Term Incentive (LTI) Plan rights holdings of KMP**

**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] |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | Number | Number | Number | Number | Number | $ | $ |
| **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 |
| *Value vested/lapsed*[5] | | | | *$1,002,000* | *($3,776,000)* | | | |
| Colette Garnsey | 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 |
| *Value vested/lapsed*[5] | | | | *$1,002,000* | *($3,800,000)* | | | |

Notes:

[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 30 July 2011, rights were forfeited due to employment or financial performance conditions not being satisfied.

[3] Non-Executive Directors are not entitled to participate in the LTI Plan and therefore no holdings are disclosed.

[4] Rights held by Executives appointed as KMP after 31 July 2010, represent their holdings as at the date of their appointment.

[5] The value of rights that have
(i) vested during the year is calculated using the weighted average share price at date of vesting.
(ii) forfeited/lapsed during the year is calculated using the closing share price as at 30 July 2011.

[6] Fair value of right as at grant date.

For the 52 weeks ended 28 July 2012 and 30 July 2011
**David Jones Limited and its controlled entities**

## 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 Laing | 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.

## 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:

[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 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).

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## 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:**

| | | | NUMBER OF LTI AND RETENTION PLAN RIGHTS | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Offer Description/ Performance Period | Date of Grant | Expiry Date | Balance at 31 July 2011 | Granted during period | Forfeited during period | Vested and converted during period[1,2] | Balance at 28 July 2012 | Fair value per right TSR hurdle | Fair value per right NPAT hurdle |
| 09 - 12 Retention Offer - Tranche 2<br>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<br>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<br>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<br>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<br>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<br>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<br>27 July 2008 – 30 July 2011 | 26 September 2007 | 30 September 2011 | **83,881** | – | – | (83,881) | – | – | **$4.03** |
| 09 - 12 Additional Retention - Tranche 3<br>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<br>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<br>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<br>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<br>29 July 2012 – 26 July 2014 | 14 October 2011 | October 2014 | – | **70,000** | – | – | 70,000 | – | **$2.36** |

Note:

[1] The conversion of LTI Plan rights to ordinary shares is subject to financial performance and employee service conditions being met by the plan participants.

[2] The weighted average share price at date of vesting was $3.01.

## 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:**

| | | | NUMBER OF LTI AND RETENTION PLAN RIGHTS | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Offer Description/ Performance Period | Date of Grant | Expiry Date | Balance at 1 August 2010 | Granted during period | Forfeited during period | Vested and converted during period[1,2] | Balance at 30 July 2011 | Fair value per right TSR hurdle | Fair value per right NPAT hurdle |
| 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:

[1] The conversion of LTI Plan rights to ordinary shares is subject to financial performance and employee service conditions being met by the plan participants.

[2] The weighted average share price at date of vesting was $5.01.

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**29. EMPLOYEE SHARE PLANS** CONTINUED

| | 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 |

**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<br>Tranche 3 vested at stretch for TSR and between target and stretch for NPAT<br>4th and final tranche vested between target and stretch for TSR but below target for NPAT. | Tranche 1 and 2 vested at stretch performance<br>3rd 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. |

**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 Number | DESP 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** |

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| | Note | Class of Share | Interest Held 2012 % | Interest Held 2011 % |
|---|---|---|---|---|
| **30. CONSOLIDATED ENTITIES** | | | | |
| **Parent entity:** | | | | |
| David Jones Limited | (i) | | | |
| **Subsidiaries:** | (ii) | | | |
| Aherns Holdings Pty Ltd (investor) | | 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.

## 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.

## 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 it's 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:

| | **2012 $000** | **2012 %** | 2011 $000 | 2011 % |
|---|---|---|---|---|
| **Gearing Ratio** | | | | |
| 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).

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## 32. CAPITAL AND FINANCIAL RISK MANAGEMENT CONTINUED

### Financial risk management

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 $000** | 2011 $000 | **2012 $000** | 2011 $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.

## 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 $000 | Level 2 $000 | Level 3 $000 | Total $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 |

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## 32. CAPITAL AND FINANCIAL RISK MANAGEMENT CONTINUED

### Financial risk management continued

### (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.

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 $000 | Non Interest Bearing $000 | Total $000 | Average Interest Rate % Per annum |
|---|---|---|---|---|
| **2012** | | | | |
| **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 $000** | 2011 $000 | **2012 $000** | 2011 $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.

## 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 $000** | 2011 $000 |
| **Gross Value Payable under Foreign Currency Contracts:** | | | | |
| 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.

| | PROFIT BEFORE TAX | | EQUITY | |
|---|---|---|---|---|
| | **2012 $000** | 2011 $000 | **2012 $000** | 2011 $000 |
| **Foreign Currency Exchange Rate Sensitivity Analysis** | | | | |
| 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.

## 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).

## 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 $000 | 6 – 12 Months $000 | Over 1 to 5 Years $000 | Total $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.

For the 52 weeks ended 28 July 2012 and 30 July 2011
**David Jones Limited and its controlled entities**

## 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

Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001
Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
www.ey.com/au

## 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.

Ernst & Young

Ernst & Young

Graeme McKenzie
Partner
19 September 2012

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680 George Street
Sydney NSW 2000 Australia
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www.ey.com/au

# 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.

ERNST & YOUNG

### *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*.

Ernst & Young.

Ernst & Young

Graeme McKenzie
Partner
Sydney
19 September 2012

# SHAREHOLDER INFORMATION

As at 26 September 2012
**David Jones Limited and its controlled entities**

Current shareholder information is available on the Company's website which is updated regularly.

### TOP 20 ORDINARY SHAREHOLDERS

| | SHAREHOLDER | NUMBER OF SHARES | % |
|---|---|---|---|
| 1 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 69,772,020 | 13.20 |
| 2 | NATIONAL NOMINEES LIMITED | 53,849,479 | 10.19 |
| 3 | J P MORGAN NOMINEES AUSTRALIA LIMITED | 48,962,821 | 9.26 |
| 4 | CITICORP NOMINEES PTY LIMITED | 23,601,225 | 4.46 |
| 5 | J P MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C> | 7,180,567 | 1.36 |
| 6 | CS FOURTH NOMINEES PTY LTD | 5,812,078 | 1.10 |
| 7 | PERPETUAL TRUSTEE COMPANY LIMITED | 3,793,000 | 0.72 |
| 8 | BNP PARIBAS NOMS PTY LTD <MASTER CUST DRP> | 3,578,182 | 0.68 |
| 9 | ARGO INVESTMENTS LIMITED | 3,426,706 | 0.65 |
| 10 | CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C> | 3,403,070 | 0.64 |
| 11 | AMP LIFE LIMITED | 2,582,713 | 0.49 |
| 12 | STEPHEN GODDARD | 2,311,807 | 0.44 |
| 13 | UBS NOMINEES PTY LTD | 1,989,522 | 0.38 |
| 14 | SHARE DIRECT NOMINEES PTY LTD <10026 A/C> | 1,423,200 | 0.27 |
| 15 | GWYNVILL INVESTMENTS PTY LIMITED | 1,330,700 | 0.25 |
| 16 | DAVID JONES SHARE PLANS PTY LTD <DAVID JONES INCENTIVE PLAN> | 1,279,037 | 0.24 |
| 17 | PAUL ZAHRA | 1,274,676 | 0.24 |
| 18 | BNP PARIBAS NOMS PTY LTD <DRP> | 1,205,867 | 0.23 |
| 19 | UBS NOMINEES PTY LTD <PB SEG A/C> | 1,109,213 | 0.21 |
| 20 | CELEST HOLDINGS PTY LIMITED | 887,600 | 0.17 |
| | | 238,773,483 | 45.17 |

The 20 largest ordinary shareholders hold 45.17% of the ordinary shares of the Company.

### SUBSTANTIAL SHAREHOLDINGS

Substantial Shareholder Notices received up to 26 September 2012

| | Ordinary Shares | Extent of Interest | Date of Last Notification |
|---|---|---|---|
| Allan Gray Australia Pty Ltd | 32,559,502 | 6.16% | 20.09.12 |
| Ausbil Dexia Limited | 27,612,503 | 5.22% | 12.07.12 |

### CLASS OF SHARES AND VOTING RIGHTS

At 26 September 2012 there were 67,655 holders of the ordinary shares of the Company.

The voting rights attaching to the ordinary shares set out in clause 5.8 of the Company's Constitution are on a show of hands, every member present has one vote; and on a poll, every member present has one vote for each fully paid share held by the member and in respect of which the member is entitled to vote.

### DIVIDEND SCHEDULE

Details of dividends paid on ordinary shares during the current and previous financial year are set out in the Directors' Report on page 40.

For a full up to date schedule of all dividends paid by the Company, since listing in 1995, see the "For Investors" section of the David Jones website.

### DISTRIBUTION OF SHAREHOLDERS

| Category | Holders of Ordinary Shares as at 26 September 2012 | Holders of Ordinary Shares as at 28 September 2011 |
|---|---|---|
| 1 – 1000 | 12,799 | 13,346 |
| 1,001 – 5,000 | 43,520 | 47,611 |
| 5,001 – 10,000 | 7,144 | 7,224 |
| 10,001 – 100,000 | 4,044 | 4,161 |
| 100,001 and over | 148 | 136 |
| | 67,655 | 72,478 |
| Less than a marketable parcel | 3,161 | 2,958 |

# CORPORATE DIRECTORY

## PRINCIPAL REGISTERED OFFICE

86–108 Castlereagh Street, Sydney, NSW 2000

**Telephone**

(02) 9266 5544

**Facsimile**

(02) 9261 5717 – Corporate

(02) 9267 3895 – General Retail

**Telephone number for all Stores**

133 357

## LOCATIONS OF ALL STORES

David Jones stores are located in New South Wales, Australian Capital Territory, Victoria, Queensland, South Australia and Western Australia. Details of individual stores are shown in the 'Stores' section of the David Jones website.

## WEBSITE

www.davidjones.com.au

## COMPANY SECRETARY

Susan Leppinus B.Ec LLB GDip AppFin

## 2012 DAVID JONES LIMITED ANNUAL REPORT

This year's Annual Report and the Notice of Meeting can be accessed at http://www.davidjones.com.au/For-Investors/Presentations-and-Reports-2012/Annual-Reports-2012.
The Annual Report is also available, free of charge, on request from the Share Registry by calling 1800 652 207.

Previous years' Annual Reports, announcements made to ASX during the year and general shareholder information can be accessed on the David Jones website. Upon accessing the David Jones website, click on 'For Investors' at the bottom of the screen to go through to releases and reports.

## SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street, Sydney, NSW 2000
GPO Box 7045, Sydney, NSW 2001

**Telephone**

1800 652 207 – Toll Free

**Facsimile**

(02) 8235 8150

**Share Registry Website**

www.computershare.com

Shareholders can access information and services relevant to their holding, including dividend payment history details, from the David Jones website under "For Investors".

Anyone can visit the Share Registry website to access a range of information about David Jones including the closing price of David Jones shares, graphs showing market prices over a requested period and graphs showing volumes traded over a requested period. Shareholders can register their email address through the Share Registry website to receive shareholder communications electronically.

## STOCK EXCHANGE

David Jones Limited is listed on the ASX.

The Home Exchange is Sydney.

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DAVID JONES

For Corporate and Customer information please visit us at **davidjones.com.au**