

CORPORATE GOVERNANCE STATEMENT

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CORPORATE GOVERNANCE STATEMENT

1. INTRODUCTION AND DATE OF STATEMENT

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 followed in the financial period ended 30 July 2005 and adopted as at 8 October 2004.

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 Group.

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, 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 examined the "Principles of Good Corporate Governance and Best Practice Recommendations" (ASX Best Practice Recommendations) published in March 2003 by the Australian Stock Exchange Limited's Corporate Governance Council and the Commonwealth Government's CLERP 9 amendments to the Corporations Act.

The Board has adopted practices as appropriate to ensure David Jones remains at the forefront in protecting stakeholder interests.

The Board's approach has been guided by the principles and practices that are in stakeholders' best interests whilst ensuring full compliance with legal requirements.

2.2 Compliance with the ASX Best Practice 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 28 ASX Best Practice Recommendations in the reporting period. Listed companies must identify the recommendations that have not been followed and provide reasons for the company's decision.

Copies of David Jones' corporate governance practices have been posted on its website at

www.davidjones.com.au as required by the ASX Best Practice Recommendations.

As detailed in this Statement, David Jones considers its governance practices comply with 27 of the ASX Best Practice recommendations. A checklist summarising this view is shown in Section 9 of this Statement.

There is one recommendation where David Jones' past practices only partially comply.

ASX Best Practice Recommendation 9.4 recommends companies seek shareholder approval of equity-based reward schemes for executives. David Jones has five equity-based reward plans all of which were introduced prior to the release of the ASX Best Practice Recommendations. Shareholder approval has been obtained for four plans and accordingly the requirements of ASX Best Practice Recommendation 9.4 in respect of these plans have been met in full.

The four plans which fully comply with ASX Best Practice Recommendation 9.4 are:

- the Employee Share Plan which was established in 1995 and approved by former shareholders prior to the listing of David Jones on the ASX in November 1995; and
- the Exempt Employee Share Plan, Deferred Employee Share Plan and Executive Option Plan which were approved by shareholders at the 1998 annual general meeting.

In the case of the LTI Plan which was introduced in 2001, the requirements of ASX Best Practice Recommendation 9.4 have only partially been complied with. The ASX Listing Rules no longer require shareholder approval for the introduction of a share incentive plan. Although the LTI Plan has not been explicitly approved by shareholders, at the 2001, 2003 and 2004 annual general meetings, shareholder approval was obtained to offer shares under the LTI Plan to David Jones' Executive Directors. David Jones has previously made extensive disclosures in relation to the LTI Plan in its notices of meeting and financial statements. Details of the LTI Plan are also disclosed in the Remuneration Report on pages 42 to 44 and in Note 33 on pages 79 to 81 of this annual report. In view of the foregoing, and as shareholders have not raised any material issues, David Jones does not propose to present the LTI Plan for shareholder approval. All proposed grants to Executive Directors will however continue to be put to shareholders for approval.

In this Statement, the relevant governance items are linked to each of the 28 ASX Best Practice Recommendations. The table in Section 9 of this Statement also links this Statement to the ASX Best Practice Recommendations.

The Company's Corporate Governance Statement is available at www.davidjones.com.au.

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 qualifications, experience and special responsibilities is set out on pages 10 and 11 of this annual report.

ASX Best Practice Recommendation 2.5

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;
- monitoring management and financial performance against these objectives;
- reviewing and approving the annual budget and strategic plan;
- reviewing and approving the strategic allocation of capital including major capital projects and property leases;
- approving capital management initiatives and major financing facilities;
- considering and approving David Jones' interim and full year financial statements;
- defining Board competencies, evaluating Board performance, determining the remuneration of the Board (with shareholder approved limit) and planning Board succession;
- selection and appointment of the CEO;
- evaluating the performance and determining the remuneration of the CEO and senior managers (within shareholder approved limit);
- ensuring there are plans and procedures for recruitment, training, remuneration and succession planning for senior managers;
- ensuring the appropriate risk management systems, internal controls, reporting systems and compliance frameworks are in place and operating effectively; 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 CEO, assisted by the Management Committee.

The CEO 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.

ASX Best Practice Recommendation 1.1

3.3 Board size and composition

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 CEO; and
- all directors shall bring independent judgement to bear in decision-making.

David Jones' Board currently comprises six independent Non-Executive Directors and two Executive Directors being the CEO and Finance 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 and Chairman since July 2003. The Chairman is a member of the Board Remuneration and Nominations Committee.

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The current Deputy Chairman, John Coates, is an independent Non-Executive Director appointed by the Board. He has been a Director of David Jones since October 1995 and Deputy Chairman since October 2003. The Deputy Chairman is a member of the Board Audit Committee.

ASX Best Practice Recommendations 2.2, 2.3

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. A Non-Executive Director is considered to be independent when not a member of management and:

- is 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 has not been employed in an executive capacity by David Jones or another Group member; or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional adviser or material consultant to David Jones (or another 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;
- is not a material supplier or customer of David Jones or other Group member; or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with David Jones or another Group member other than as a Director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of David Jones; and
- is free from any interest and any business or other relationship, which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

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

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

- proportion of a class of expenses or revenues that the relationship represents to both David Jones and the third party;

- nature of the goods and services;

- nature and value of the transaction to David Jones and the other third party to the transaction; and

- nature of the position or interest held with a third party.

ASX Best Practice Recommendations 2.1, 2.5

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. Directors' independence is reviewed on an annual basis.

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 CEO'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 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 is set out in the Directors' Report on page 30 of this annual report.

3.8 Succession Planning

The Board plans succession of its own members in conjunction with the Remuneration and Nominations Committee, taking into account the skills, experience and expertise required and currently represented, and David Jones' future direction. The Board is also responsible for succession planning for the CEO, and for ensuring succession plans for the Finance Director and other senior managers.

3.9 Review of Board performance

The Board has in place a process to review its performance annually. 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 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 and each Board Committee under its respective charter;
- integral to the process is feedback from key stakeholders and senior management which is obtained through an interview process; and
- 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.

A Board evaluation process was completed in July 2004. The evaluation process for 2005 is in progress and scheduled for completion in November 2005.

ASX Best Practice Recommendation 8.1

3.10 Nomination and appointment of new Directors

Recommendations for nominations of new Directors are made by the Board 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 or an existing Director is required to stand for re-election. The 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. For the purpose of objectivity, the selection process is supported throughout by independent consultants.

The Committee reviews and makes recommendations for Board approval in respect of the appointment, contract terms, and termination of the CEO.

It also provides the Board with the opportunity to review the appointment or termination of any executive reporting to the CEO, and the Company Secretary, prior to implementation.

ASX Best Practice Recommendation 2.5

3.11 Retirement and selection of Directors

The constitution of David Jones specifies that all Directors (with the exception of the CEO) 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.

3.12 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.

ASX Best Practice Recommendation 2.5

4. BOARD COMMITTEES

4.1 Board committees and membership

To assist in the execution of responsibilities, the Board has in place two Board committees comprising a Remuneration and Nominations Committee and an Audit Committee.

Personnel and remuneration matters have been delegated to the Board 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 Board Audit Committee.

The members of the Board Remuneration and Nominations Committee are:

Reginald Clairs (Chairman)
Katie Lahey
Robert Savage

The members of the Board Audit Committee are:

John Harvey (Chairman)
John Coates
Paula Dwyer

Other committees may be established from time to time to consider matters of special importance.

ASX Best Practice Recommendations 4.2, 9.2

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 at www.davidjones.com.au.

Each Committee is entitled to the resources and information it requires, including direct access to employees and advisers. The CEO, senior executives and certain other employees are invited to attend Committee meetings. 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. The performance of each member of the Committees is evaluated as part of the performance review of each Director.

ASX Best Practice Recommendations 4.4, 4.5, 8.1, 9.2, 9.5

4.3 Remuneration and Nominations Committee

The role of the Board Remuneration and Nominations 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 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 the remuneration of the CEO and Finance Director, and the terms of their employment contracts;
- approval, on the recommendation of the CEO, of the remuneration of the members of the Management Committee, including the terms of their employment contracts;
- the review of and recommendation to the Board on the nature and composition of short term and long term incentive plans; and
- the review and recommendation to the Board of any annual payments to be made under any incentive plans.

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

- conduct searches for new Board members and recommend preferred candidates to the Board, including the CEO and Finance Director;
- 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;
- assist the Chairman as required to evaluate the performance of the Board, its Committees, and individual members, including the performance of the CEO;
- ratify appointments to David Jones' Management Committee; and
- review and assess succession plans for executive positions reporting to the CEO.

Further details around the Remuneration and Nominations Committee's responsibilities as they relate to remuneration are detailed on page 38 in the Remuneration Report.

ASX Best Practice Recommendations 2.4, 2.5, 9.2, 9.5

4.4 Audit Committee

The objectives of the Board Audit Committee are to assist the Board to:

- safeguard the integrity of financial reporting;
- make timely and balanced disclosure; and
- recognise and manage financial risk.

As previously identified, the Audit Committee comprises three independent Non-Executive Directors. 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; but not of David Jones.

The external auditors, internal auditors, Chairman of the Board, CEO, Finance Director and other senior executives attend all 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 their adoption by the Board;
- policies and procedures for the adoption of the Australian equivalent of International Financial Reporting Standards; 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 all related party transactions.

(c) Internal control and risk management

The Committee reviews and recommends to the Board for adoption, policies and procedures on risk oversight and management so as to establish an effective and efficient system to identify, assess, monitor and manage risk, ensure accountability at a senior management level for risk oversight and management, and ensure appropriate disclosure. The Committee also reviews David Jones' risk profile, including a regular assessment and prioritisation of risks and the effectiveness of David Jones' risk management and internal compliance and control systems.

(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 and the Board. 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) Internal audit

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

The Committee reviews the performance of the internal auditor:

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

The Committee also monitors and reports to the Board on Management's responsiveness to internal audit findings and recommendations.

The internal auditor reports directly to the Committee and members have the opportunity to meet with the internal auditor without the presence of other management.

ASX Practice Recommendations 4.2, 4.3, 4.4, 4.5

5. EXTERNAL AUDITOR INDEPENDENCE

5.1 Approach to auditor independence

David Jones' Board 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 is not capable of exercising objective and impartial judgement in relation to the conduct of the audit of David Jones.

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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 Code of Professional Conduct jointly issued by the Institute of Chartered Accountants in Australia and CPA Australia, and the Corporations Act.

The external auditor is also required to confirm it will retain all working papers for the audit (or review) for a period of 7 years after the date of the audit report.

5.3 Other monitoring of independence

The Board 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 A\$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 Professional Statement F1) or would 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 Group for 5 successive financial years or for 5 out of 7 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 3 successive financial years.

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 3 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, including a breakdown of fees for non audit services, is provided in Note 5 on page 61 of this annual report.

The Audit Committee and Board are satisfied the provision of non audit services in 2005 is compatible with external auditor independence as required by the Corporations Act.

5.4 Prohibited non audit services by the external auditor

No work 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. 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.

ASX Best Practice Recommendation 6.2

6. CONTROLLING AND MANAGING RISK

6.1 Approach to risk management

David Jones' approach to risk management has been to establish an effective control environment to manage 'significant risk' to its business.

The David Jones risk management framework has been developed in line with the Australia/New Zealand Risk

Management Standard (AS/NZ 4360).

A significant risk is defined as the chance that an action, inaction or natural event will hinder or prevent the achievement of key business objectives. Risk can relate to both threats to the operation, and the failure to take advantage of opportunities. David Jones takes an enterprise wide view of risk with risks from all activities, strategic and operational, being examined. In this regard, the current David Jones risk model includes risk categories covering:

- customers;
- brand portfolio and competition;
- people;
- business operations;
- compliance;
- financial;
- information technology and infrastructure;
- reputation; and
- strategy.

David Jones has developed an effective control environment to manage the significant risks to its operations, comprising the following components:

- 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 three year strategic plan processes;
- regular internal review and mechanisms including the operation of a Capex Committee, Property Committee, Marketing Forum and Management 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;
- internal and external audit functions; and
- comprehensive risk management framework and guidelines.

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

ASX Best Practice Recommendations 7.1 and 7.3

6.2 Risk management roles and responsibilities

The David Jones Board determines the Company's risk appetite. The Board is responsible for ensuring material risks facing the Company have been identified and that appropriate and adequate control, monitoring and reporting mechanisms are in place. David Jones management has developed a risk identification, analysis and mitigation process. The process produces a risk report that identifies key business risks and determines responsibility for the risk mitigation activities for each of these risks. The process is designed to ensure internal operating and external risks are identified, assessed, addressed and monitored to minimise risk in the achievement of David Jones' business objectives.

The risk report is updated annually, and reviewed half yearly by the Board and Audit Committee. This risk profile is used by the internal auditors to allocate assurance resources to those business risks which are key to the operation of David Jones. External audit also makes use of this profile.

A copy of David Jones risk management policy and internal compliance and control systems is available in the corporate governance section of David Jones' website.

6.3 Executive declaration

The CEO and the Finance Director have provided the following declaration to the Board in connection with the financial statements of David Jones for the financial period ended 30 July 2005:

- David Jones' financial statements and accompanying notes present a true and fair view, in all material respects, of David Jones' financial condition and operating results, and comply with relevant accounting standards;
- the above statement is founded on a system of risk management, internal compliance and control, which implements the policies adopted by the Board;
- David Jones' risk management and internal compliance and control systems are operating efficiently and effectively in all material respects; and
- the financial records of David Jones for the financial period ended 30 July 2005 have been properly maintained in accordance with section 286 of the Corporations Act.

ASX Best Practice Recommendations 4.1, 7.2 and 7.3

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 34 to 49 in the Remuneration Report.

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 2004 annual general meeting, the maximum aggregate amount permitted to be paid to Non-Executive Directors under the David Jones constitution is \$1.3 million per annum.

Contributions to the retirement allowance plan for Non-Executive Directors (other than adjustments for notional bank interest based on the retirement allowance balance) were discontinued in October 2004. Since October 2003 no new directors have been entitled to join this plan.

Non-Executive Directors may also be reimbursed for their expenses properly incurred as a Director, or in the course of their duties. Non-Executive Directors are also encouraged to own David Jones shares and may participate in the Deferred Employee Share Plan if they elect to sacrifice Directors' fees and have shares purchased under the Plan at market value. The Non-Executive Directors do not participate in any other David Jones employee share plans nor its short or long term incentive schemes.

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 policy achieves 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.

All payments made under the STI Scheme and shares issued under the LTI Plan are audited or reviewed by the Company's external auditors.

The Remuneration and Nominations Committee's responsibilities in relation to remuneration are detailed on page 38 in the Remuneration Report.

7.2 STI Scheme

Under David Jones' Short Term Incentive Scheme, the Executive Directors and senior managers can earn a cash based payment which represents a pre-determined percentage of their employment cost (which is comprised of base salary and superannuation contributions). Payments under this scheme are 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. The Board intends that similar conditions will be imposed in future financial years. Further details of the Short Term Incentive Scheme are provided in Section 4 of the Remuneration Report.

7.3 LTI Plan

David Jones' LTI Plan was introduced in 2001. Executive Directors, executives and other senior managers are eligible to participate in this Plan.

Under this Plan, eligible participants may be granted the right to receive a certain number of ordinary shares in David Jones, which may vest, and be convertible into shares, conditional on the achievement of performance measures covering a three year consecutive period and continual employment beyond this time.

The Board has determined that two performance measures, which operate independently of each other, will be used to determine the entitlement of participants to receive shares under this Plan. The performance measures are:

- a TSR measure; and
- a ROFE measure.

Depending on David Jones' performance against these measures, a number of shares may vest in favour of participants, at which time the participants will become beneficially entitled to, and enjoy the rights attaching to, the shares, subject to the terms and conditions of the Plan.

If the performance conditions are not met within the performance period, the conditional entitlement to some or all of the offered shares will lapse. Further details relating to the LTI Plan are provided in Section 4 of the Remuneration Report.

7.4 Other equity schemes in David Jones

Other equity schemes in David Jones are the:

- Employee Share Plan;
- Employee Share Purchase Plan;
- Exempt Employee Share Plan;
- Deferred Employee Share Plan; and
- Executive Option Plan.

The relevant details of each scheme are contained in this annual report in Section 4 of the Remuneration Report and in Note 33 to the Financial Statements.

ASX Best Practice Recommendations 9.1 to 9.5

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, which has been provided to employees and is available in the corporate governance section of the David Jones website at www.davidjones.com.au.

ASX Best Practice Recommendations 3.1 and 10.1

8.2 The David Jones Code of Ethics and Conduct

David Jones' Code of Ethics and Conduct applies to all Directors and employees. The Code has been fully endorsed by the Board and is provided to all Directors and employees as part of their formal orientation process. 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 Best Practice 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:

- external communications and continuous disclosure policy*;
- risk management guidelines*;
- delegations manual;
- treasury policy;
- capital expenditure policy;
- trading in company securities*; and
- occupational health and safety, equal opportunity and other human resources policies.

ASX Best Practice Recommendations 3.1, 3.2, 3.3, 10.1

* available on the David Jones website at www.davidjones.com.au.

8.3 Compliance with the Code of Ethics and Conduct

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

- violations of these standards, requirements and expectations 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 access to a confidential ethics hotline, which they are encouraged to use and may do so on an anonymous basis. All reports are investigated promptly, confidentially and fairly.

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

ASX Best Practice Recommendations 3.1, 10.1

8.4 Share trading policy

Consistent with the legal prohibitions on insider trading, all Directors, members of senior management, consultants and other employees are prohibited from dealing in David Jones shares, options or other securities while in possession of information about David Jones that is not generally available and is price sensitive. David Jones price sensitive information is information that a reasonable person would expect to have a material effect on the price or value of David Jones' securities. Directors and senior managers may acquire shares in David Jones, but are prohibited from dealing in David Jones shares or exercising options:

- in the two months preceding the lodgement of the Company's half-year and annual results with the ASX;
- while in possession of price sensitive information; and
- trading for short-term gain.

Directors, officers, consultants, members of senior management and other employees are also 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.

Directors must advise the Chairman, senior management and the Company Secretary of a proposed dealing in the Company's shares, options or other securities prior to any transaction, and confirm they are not in possession of any unpublished price sensitive information. The ASX is notified of any transactions conducted by Directors.

David Jones' share trading policy is available in the Corporate Governance section of its website.

ASX Best Practice Recommendations 3.2, 3.3

8.5 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 at www.davidjones.com.au.

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 CEO, Finance Director and the General Manager – Investor Relations to continually monitor compliance and to ensure appropriate communications with the ASX through the office of the Company Secretary.

The Board aims to keep shareholders informed of all major developments affecting David Jones' activities and its state of affairs through distribution of the annual report. 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 and annual reports for the last five years and information on all corporate governance practices are placed on David Jones' website at www.davidjones.com.au.

ASX Best Practice Recommendations 5.1, 5.2, 6.1

8.6 Environment

David Jones recognises the importance of conserving the environment. David Jones also understands the impact its business has on the environment. Therefore, in addition to complying with its government and legal obligations, David Jones aims to continually improve its performance in operating an environmentally aware business. Specific initiatives that David Jones focuses on include energy use and management, and the use of recycled or recyclable products. David Jones is also a signatory to the National Packaging Covenant which aims to minimise the volume of packaging generated by retail businesses. The program has already resulted in a sizeable reduction in the volume of David Jones' plastic carry bags and David Jones continues to monitor this issue on an ongoing basis. David Jones also encourages its suppliers and contractors to support its commitment to the environment, for example by meeting a minimum threshold for the use of recycled materials in the production of printed matter.

8.7 Community

Following market research of David Jones' customer base, a donations policy was developed in 2003, focusing on the charities David Jones' customers value most, thus aligning the interests of customers with those of the shareholders. This research indicated that charities in the areas of women's and children's health should be the primary focus for support. To enable more meaningful contributions, David Jones has concentrated its support on a number of primary charities, with an ongoing commitment to the National Breast Cancer Foundation and the Children's Cancer Institute of Australia. David Jones contributes to its chosen charities through cash donations, sponsorships and the contribution of resources such as materials and labour, sale of charity items and space in premises. From time to time major incidents occur where David Jones considers it important to provide substantial assistance over and above its normal donations policy. This occurred this financial year with a donation of \$280,000 from David Jones and its staff to the Oxfam Community Aid Abroad's Earthquake Tsunami Appeal. Other contributions to charities this financial year included the following:

■ **National Breast Cancer Foundation.** Total donation of \$319,000. David Jones staff and customers contributed a total of \$39,000 from the sale of Pink Ribbons nationally during Pink Ribbon Month and \$200,000 from sales of David Jones Charity Bears in store. Alice, the third David Jones Charity Bear, was successfully launched in November 2004 and has enjoyed strong sales support. The fourth Charity Bear Charlotte will be launched in November 2005. David Jones continued to support the "Fashion Targets Breast Cancer Fashion Cabaret" in April 2005 with a sponsorship donation of \$50,000, and also made a research grant donation of \$30,000.

■ **Children's Cancer Institute of Australia.** Total donation of \$100,000 in an ongoing commitment to contribute to the funding of a research grant to support neuroblastoma research.

■ **Rose Clinic.** Total donation of \$50,000. Our commitment to the Rose Clinic, located in the Elizabeth Street store and providing services such as breast screening, blood tests and bone density assessments, continues following the initial set up costs in 2003 of \$150,000. David Jones contributes towards operating costs each financial year to assist with the funding of a nurse's wage to service the Clinic with a donation of \$50,000 annually. The Clinic has provided services to over 23,000 customers since its launch in 2003.

■ **Sydney Cancer Centre.** Total donation of \$21,000 towards sponsorship of the Sydney Cancer Centre Fundraising Ball.

■ **Children's Hospital Burns Units.** Total donation of \$25,000. David Jones committed \$5,000 to each of the Burns Units of the Children's Hospital Westmead, Sydney; Royal Children's Hospital Foundation, Melbourne; Princess Margaret Hospital for Children, Perth; Royal Children's Hospital Foundation, Brisbane; and the Women's and Children's Hospital in Adelaide. This donation was in support of the 'Our Little Hero' national telethon.

■ **Starlight Foundation.** Total donation of \$10,000 to the sponsorship of a Starlight Foundation Chamber of Commerce fundraising lunch.

■ **Sydney Children's Hospital.** Total donation of \$8,000 to the sponsorship of the Sydney Children's Hospital fundraising ball.

■ **Look Good...Feel Better.** Total donation of \$22,000 to the sponsorship of the Look Good...Feel Better fundraising ball. Look Good...Feel Better is a community service program dedicated to helping women undergoing treatment for cancer and is an initiative of the member companies of the Cosmetic Toiletry and Fragrance Association of Australia.

CORPORATE GOVERNANCE STATEMENT

9. ASX PRINCIPLES OF GOOD CORPORATE GOVERNANCE AND BEST PRACTICE RECOMMENDATIONS

ASX Principle and Recommendations	Reference ¹	Compliance
Principle 1 Lay solid foundations for management and oversight		
1.1 Formalise and disclose the functions reserved to the board and those delegated to management.	3.2	Comply
Principle 2 Structure the board to add value		
2.1 A majority of the board should be independent directors.	3.5	Comply
2.2 The chairperson should be an independent director.	3.3, 3.4	Comply
2.3 The roles of chairperson 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 Provide the information indicated in <i>Guide to reporting on Principle 2</i> .	3.1, 3.5, 3.10, 3.12, 4.3	Comply
Principle 3 Promote ethical and responsible decision-making		
3.1 Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:		
3.1.1 the practices necessary to maintain confidence in the company's integrity	8	Comply
3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices	8	Comply
3.2 Disclose the policy concerning trading in company securities by directors, officers and employees.	8.2, 8.4	Comply
3.3 Provide the information indicated in <i>Guide to reporting on Principle 3</i> .	8	Comply
Principle 4 Safeguard integrity in financial reporting		
4.1 Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.	6.3	Comply
4.2 The board should establish an audit committee.	4.1, 4.4	Comply
4.3 Structure the audit committee so that it consists of:	4.4	Comply
4.3.1 only non-executive directors		
4.3.2 a majority of independent directors		
4.3.3 an independent chairperson, who is not chairperson of the board		
4.3.4 at least three members		
4.4 The audit committee should have a formal charter.	4.2	Comply
4.5 Provide the information indicated in <i>Guide to reporting on Principle 4</i> .	4.2, 4.4 and Directors' Report	Comply
Principle 5 Make timely and balanced disclosure		
5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	8.5	Comply
5.2 Provide the information indicated in <i>Guide to reporting on Principle 5</i> .	8.5	Comply

ASX Principle and Recommendations	Reference ¹	Compliance	
Principle 6 Respect the rights of shareholders			
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	8.5	Comply
6.2	Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.	5.5, 8.5	Comply
Principle 7 Recognise and manage risk			
7.1	The board or appropriate board committee should establish policies on risk oversight and management.	6.1	Comply
7.2	The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:	6.3	Comply
	7.2.1 The statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.	6.3	Comply
	7.2.2 The company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.	6.3	Comply
7.3	Provide the information indicated in <i>Guide to reporting on Principle 7</i> .	6.1, 6.3	Comply
Principle 8 Encourage enhanced performance			
8.1	Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.	3.9, 4.2 and Remuneration Report	Comply
Principle 9 Remunerate fairly and responsibly			
9.1	Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.	7 and Remuneration Report	Comply
9.2	The board should establish a remuneration committee.	4.1, 4.3, 7	Comply
9.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	7 and Remuneration Report	Comply
9.4	Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.	2.2, 7 and Remuneration Report	Partially comply ²
9.5	Provide the information indicated in <i>Guide to reporting on Principle 9</i> .	4.2, 4.3, 7 and Remuneration Report	Comply
Principle 10 Recognise the legitimate interests of stakeholders			
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations.	8.1, 8.2, 8.3	Comply

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

² Refer Section 2.2 Compliance with the ASX Best Practice Recommendations on page 14.