

DIRECTORS' REPORT

This report is given by the Directors in respect of David Jones Limited (the Company) and the Consolidated Entity consisting of the Company and the entities it controlled for the financial year ended 30 July 2005.

DIRECTORS

The names of the Company's Directors in office during or since the end of the financial year are as follows:

Robert Savage	Chairman and independent Non-Executive Director
John Coates AO	Deputy Chairman and independent Non-Executive Director
Mark McInnes	Chief Executive Officer and Executive Director
Stephen Goddard	Finance Director and Executive Director
Reginald Clairs AO	Independent Non-Executive Director
Paula Dwyer	Independent Non-Executive Director
John Harvey	Independent Non-Executive Director
Katie Lahey	Independent Non-Executive Director

Each of the above Directors has been in office for the entire financial year and up to the date of this report.

Details of Directors' qualifications, experience, external directorships and special responsibilities are shown on pages 10 and 11 of this annual report.

COMPANY SECRETARY

The Company Secretary is Caroline Waldron (LLB (Hons)). Caroline Waldron was appointed to the position of Company Secretary on 21 March 2005. She is also General Counsel of David Jones and has more than 10 years' in-house legal experience working with Boards of Directors and senior management in public listed companies in Australia and New Zealand.

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the financial year consisted of retailing through department stores and providing consumer credit through the David Jones store card.

CONSOLIDATED RESULTS

The consolidated net profit of the Consolidated Entity for the financial year was \$77.862 million after deducting income tax expense of \$33.854 million.

The full financial position of the Consolidated Entity is shown in the financial statements on pages 50 to 52 and the accompanying Notes.

REVIEW OF OPERATIONS

A detailed review of operations and the results of those operations is set out in the Chairman's Message and Chief Executive Officer's Report on pages 1 to 7 of this annual report. No extraordinary expenses were incurred by the Consolidated Entity during the financial year.

Except for the matters disclosed, there are, at the date of this report, no other matters or circumstances which have arisen since 30 July 2005 that have significantly affected or may significantly affect:

- (a) the operations in future financial periods subsequent to the financial year ended 30 July 2005, of the Consolidated Entity constituted by the Company and the entities it controls from time to time;
- (b) the results of those operations in future financial periods; or
- (c) the state of affairs, in future financial periods, of the Consolidated Entity.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Other than comments on likely developments or expected results of certain of the operations of the Consolidated Entity which are included in the Chairman's Message and the Chief Executive Officer's Report, in the opinion of the Directors, further information on likely developments in the operations of the Consolidated Entity and the expected results of those operations in future financial periods have been omitted as the Directors believe it would be likely to result in unreasonable prejudice to the Consolidated Entity's interests if such further information were included in this report.

BUSINESS STRATEGIES AND PROSPECTS

Information on the Consolidated Entity's business strategies and its prospects for future financial years are included in the Chairman's Message and the Chief Executive Officer's Report. In the opinion of the Directors, further information on the Consolidated Entity's business strategies and its prospects for future financial years would, if included in this report, be likely to result in unreasonable prejudice to the Consolidated Entity and has accordingly been omitted.

DIVIDENDS

The amounts set out below have been paid by the Company during the financial year, or have been declared by the Directors of the Company by way of dividend during the financial year but not paid as at the date of this report. All dividends were fully franked at the tax rate indicated.

	Franking Tax Rate %	Rate Per Share	Total Paid/ Payable \$000
Final 2004 dividend on ordinary shares Paid on 9 November 2004	30	6¢	25,053
Interim 2005 dividend on ordinary shares Paid on 5 May 2005	30	6¢	25,495
Final 2005 dividend on ordinary shares Payable on 8 November 2005	30	7¢	30,284
Interim 2005 dividend on reset preference shares Paid on 1 February 2005	30	\$4.0833	2,381
Final 2005 dividend on reset preference shares Paid on 1 August 2005	30	\$4.0166	2,173

In addition to the above dividends, dividends franked at the tax rate of 30% amounting to \$0.238 million were paid on a pro rata basis at the rate of 8.1% per annum on the conversion of reset preference shares to ordinary shares during the financial year and up to the date of this report.

STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Consolidated Entity during the financial year.

DIRECTORS' REPORT

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each Director during the financial year were:

Director	DIRECTORS' MEETINGS				AUDIT COMMITTEE MEETINGS		REMUNERATION AND NOMINATIONS COMMITTEE MEETINGS	
	SCHEDULED		BY WRITTEN RESOLUTION ²		A	B	A	B
	A	B	A	B				
Robert Savage ¹	8	8	3	3	4	4	3	3
John Coates	8	8	3	3	4	4		
Mark McInnes	8	8	3	3				
Stephen Goddard	8	8	3	3				
Reginald Clairs	8	8	3	3			3	3
Paula Dwyer	8	8	3	3	4	4		
John Harvey	8	8	3	3	4	4		
Katie Lahey	8	8	3	3			3	3

A number of meetings attended

B number of meetings held during the time the Director held office during the year

¹ Audit Committee meetings attended on an ex-officio basis

² Written resolution passed to deal with specific matters and signed by all Directors, except in circumstances where Directors are not eligible to vote

During the financial year, Directors also visited many of the Company's stores and major suppliers to improve their understanding of retail operations.

EMPLOYEES

The Consolidated Entity employed 8,426 employees at 30 July 2005 (2004: 9,061).

EVENTS SUBSEQUENT TO REPORTING DATE

Dividends

On 28 September 2005 the Directors declared a final dividend of 7 cents per share, fully franked at the tax rate of 30%, on each of the issued ordinary shares of the Company. The final dividend is payable on 8 November 2005 from retained profits at 30 July 2005.

Australian Equivalents to International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the Consolidated Entity must comply with the Australian Equivalents to International Financial Reporting Standards as issued by the Australian Accounting Standards Board.

Reset Preference Shares

The Company has received Holder Conversion Notices after 30 July 2005 up to the date of this report for the conversion of 83,939 reset preference shares into 5,890,427 ordinary shares. These reset preference shares will be converted into ordinary shares in accordance with the Company's Prospectus for the Issue of Reset Preference Shares.

Executive Service Agreement

The Company entered into a new Executive Service Agreement with Mark McInnes, Chief Executive Officer and Executive Director on 2 August 2005.

The key terms and conditions of that agreement are summarised in Section 5 of the Remuneration Report.

REMUNERATION REPORT

The Remuneration Report, which covers a discussion on the broad policy for determining the nature and amount of remuneration of Directors and senior executives of the Consolidated Entity, a discussion of the relationship between that policy and the Consolidated Entity's performance, and other related matters required to be disclosed in accordance with section 300A of the Corporations Act, is set out on pages 34 to 49.

DIRECTORS' INTERESTS

The relevant interest of each Director in the share capital of the companies within the Consolidated Entity, as notified by the Directors to the Australian Stock Exchange in accordance with section 205G(l) of the Corporations Act, at the date of this report is as follows:

Director	Ordinary Shares in David Jones Limited ¹	LTI Plan Rights ^{2,3}	Ordinary Shares Allocated ² on	
			28 September 2004 ⁴	28 September 2005 ⁴
Robert Savage				
DESP from Directors' fees	32,665	–	–	–
Registered in the name of CERM Investments Pty Ltd as trustee for the CERM Discretionary Trust	31,380			
	64,035			
John Coates AO				
DESP from Directors' fees	27,209	–	–	–
Registered as Five Circles Pty Ltd – John Coates Super A/C	11,380			
	38,589			
Reginald Clairs AO				
DESP from Directors' fees	57,542	–	–	–
Registered as Invia Custodian Pty Ltd A/C PIB Clairs Super Fund	100,000			
	157,542			
Paula Dwyer				
Registered in the name of Paula Dwyer and Charles Happell	30,000	–	–	–
	30,000			
Katie Lahey				
Registered as Katie Lahey	6,124	–	–	–
Registered as RBC Global Services Australia Pty Ltd A/C Lahey Marriott Holdings Pty Ltd as trustee for Lahey Marriott Unit Trust	15,871			
	21,995			
John Harvey				
Registered in the name of John Harvey	30,000	–	–	–
	30,000			
Mark McInnes	–	1,344,528	150,000	1,041,667
Stephen Goddard	225	609,519	187,500	472,222

¹ No reset preference shares in David Jones Limited are held by the Directors

² Not applicable to Non-Executive Directors

³ The number of rights granted over ordinary shares under the LTI Plan shown in the table reflects the achievement of performance measures at the stretch level. In accordance with the LTI Plan rules the number of ordinary shares which may be allocated is dependent on Company and individual performance and can range from zero to the maximum number shown

⁴ The number of ordinary shares allocated relates to rights issued under the LTI Plan in respect of the 2002–2004 and 2003–2005 offers under the LTI Plan and reflects the achievement of performance measures at the stretch level

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Indemnification

The Company has indemnified each Director referred to on page 28 of 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 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 and 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 indemnification is otherwise not permitted under the Corporations Act.

Insurance Premiums

The Company has paid insurance premiums for one year cover in respect of Directors' and Officers' liability insurance contracts, 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 premium.

ENVIRONMENT

The Company takes a responsible approach in relation to the management of environmental matters. All significant environmental risks have been reviewed and the Consolidated Entity has no legal obligation to take corrective action in respect of any environmental matter. To the best of the knowledge and belief of the Directors, the Company is not in breach of any environmental legislation in any State or Territory. The Company's approach in relation to environmental matters is further discussed in the Corporate Governance Statement on page 25 of this annual report.

AUDIT

Non-Audit Services

No non-audit services were undertaken by the Consolidated Entity's external auditors Ernst & Young during the financial year.

Audit Services

The statement by the Consolidated Entity's external auditors to the members of David Jones Limited in relation to the auditors' compliance with the independence requirements of the Corporations Act and the professional code of conduct for external auditors, forms part of this Directors' Report, and is set out on page 96.

No person who was an Officer of the Company 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 auditors conducted an audit of the Consolidated Entity.

During the financial year, the following fees were paid or were due and payable for services provided by the external auditor of the Company and Consolidated Entity:

	CONSOLIDATED ENTITY		DAVID JONES LIMITED	
	2005	2004	2005	2004
	\$	\$	\$	\$
Audit and review of financial reports	517,327	499,638	517,327	449,638
Other audit services	55,500	35,600	55,500	35,600
Audit of accounting policies under the Australian Equivalents of the International Financial Reporting Standards	166,425	55,000	166,425	55,000
Total auditors' remuneration	739,252	540,238	739,252	540,238

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.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/100 issued by the Australian and Securities Investment Commission and in accordance with that Class Order as in force as at 30 July 2005 amounts in this report (including the Remuneration Report) and the accompanying financial statements have been rounded off to the nearest one thousand dollars unless otherwise indicated.

Signed in accordance with a resolution of the Directors.



Robert Savage
7 October 2005