
CORPORATE GOVERNANCE STATEMENT

1. INTRODUCTION	14	5. EXTERNAL AUDITOR INDEPENDENCE	19
2. DAVID JONES' APPROACH TO CORPORATE GOVERNANCE	14	5.1 Approach to auditor independence	
2.1 Framework and approach to corporate governance and responsibility		5.2 Certification of independence	
2.2 Compliance with the ASX Corporate Governance Principles and Recommendations		5.3 Other monitoring of independence	
3. THE BOARD OF DIRECTORS	14	5.4 Prohibited non-audit services by the external auditor	
3.1 Membership and expertise of the Board		5.5 Attendance at Annual General Meeting	
3.2 Board role and responsibility		6. OVERSEEING, MANAGING AND CONTROLLING RISK	20
3.3 Board size and composition		6.1 Approach to risk oversight, risk management and internal control	
3.4 The selection and role of the Chairman		6.2 Risk management and internal control roles and responsibilities	
3.5 Directors' independence		6.3 Management and Executive declarations	
3.6 Avoidance of conflicts of interest by a Director		7. REMUNERATION POLICIES AND PROCEDURES	21
3.7 Meetings of the Board and their conduct		7.1 Overview	
3.8 Succession planning		7.2 STI Scheme	
3.9 Review of Board performance		7.3 LTI Plan	
3.10 Nomination and appointment of new Directors		7.4 Other equity schemes in David Jones	
3.11 Retirement and selection of Directors		8. CORPORATE CONDUCT AND RESPONSIBILITY	23
3.12 Board access to information and advice		8.1 Approach to corporate conduct	
4. BOARD COMMITTEES	17	8.2 The David Jones Code of Ethics and Conduct	
4.1 Board committees and membership		8.3 Compliance with the Code	
4.2 Committee charters		8.4 Share trading policy	
4.3 Remuneration and Nominations Committee		8.5 Continuous disclosure and shareholder communication	
4.4 Audit Committee		8.6 Community and the environment	
(a) External financial reporting		9. ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS	25
(b) Related party transactions			
(c) Risk management and internal control			
(d) External audit			
(e) Risk management and internal corporate audit			
(f) Meetings			

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 financial period ending 25 July 2009. 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 in March 2003 (and as revised effective 1 January 2008) and the Commonwealth Government's CLERP 9 amendments to the Corporations Act.

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 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.

Copies of David Jones' corporate governance practices have been posted on its website as required by the ASX Recommendations.

As detailed in this Statement, David Jones considers that its governance practices comply with the ASX Recommendations. A checklist summarising this view is shown on pages 25 to 26 of this Statement. This table also shows the link between the relevant governance items and the ASX 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 term of office, qualifications, experience and special responsibilities is set out on pages 10 to 11 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 (**CEO**), 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 CEO; 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.

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 (including the Chairman) 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 Remuneration and Nominations and Property Committees.

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 the Chairman of the Property Committee and a member of the Audit 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 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 David Jones 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 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;
- is 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
- has 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 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 by a third party.

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.

CORPORATE GOVERNANCE STATEMENT

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 35 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 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.

A formal evaluation process for the Board and its Chairman was completed in the 2008 financial year in accordance with the process described above. The next formal evaluation of the individual directors is due to take place in the second half of 2009. An external review of the Audit Committee's performance last took place in 2006.

The performance of Board Committees is discussed under section 4.2.

(b) Senior executives

All senior executives joining the Company receive comprehensive 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 October 2008 in accordance with the process set out below:

- At the beginning of each 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 the 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 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 Board 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. For the purpose of objectivity, the selection process is supported throughout by independent consultants.

The Board Remuneration and Nominations 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.

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.

4 BOARD COMMITTEES

4.1 Board committees and membership

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

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.

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.

The members of the Remuneration and Nominations Committee are:

Reginald Clairs AO (Chairman)
Katie Lahey
Robert Savage

The members of the Audit Committee are:

John Harvey (Chairman)
John Coates AC
Peter Mason AM
Robert Savage (attends meetings in an ex officio capacity)

The members of the Property Committee are:

John Coates AC (Chairman)
Robert Savage

The qualifications of each member are set out on pages 10 to 11 of this Annual Report.

The number of Remuneration and Nominations Committee, Audit Committee and Property Committee meetings held during the year is set out in the Directors' Report on page 35 of this Annual Report along with each member's attendance.

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

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 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 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 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 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

CORPORATE GOVERNANCE STATEMENT

- 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 39 in the Remuneration Report.

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 three independent Non-Executive Directors 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 CEO and Finance Director attend Audit Committee meetings. The external auditors, internal Corporate Risk Management and Audit 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 all 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) Internal corporate risk management and audit

The Committee is responsible for making recommendations to the Board concerning the appointment of David Jones' General Manager, Corporate Risk Management and Audit Manager (**CRM & A Manager**) including remuneration and other terms of the CRM & A Manager's engagement. The position of the CRM & A Manager is currently held by the General Counsel and Company Secretary.

The Committee reviews the performance of the CRM & A 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 CRM & A Manager reports directly to the Committee, except in respect of operational matters which are delegated to the Finance Director, and members have the opportunity to meet with the CRM & A 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;
- recommending actions on property related matters which are aligned with David Jones's strategy and objectives.

The Property Committee comprises two independent Non-Executive Directors of the Company. The Committee has appropriate property expertise and both members have a sound knowledge of the industry in which David Jones operates.

The responsibilities of the Property Committee include the following:

- (a) to approve specific property initiatives within parameters previously agreed by the Board;
- (b) to consider property issues of substantial complexity so as to facilitate more efficient debate on these issues;
- (c) 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
- (d) 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.

CORPORATE GOVERNANCE STATEMENT

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 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 Australian dollars.

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 FI) 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 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 92 of this Annual Report.

No fees were paid to Ernst & Young for non-audit services in 2008.

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 and Young attended the 2008 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 including the ASX "Corporate Governance Principles and Recommendations, "Risk Management AS/NZS 4360" (Standards Australia), and publications from The Committee of Sponsoring Organisations from the Treadway Commission (COSO).

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:

- strategy;
- brand and reputation;
- products and service quality;
- operational;
- sustainability;
- ethical conduct;
- compliance;
- technological;
- financial reporting;
- human capital, 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 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;
- an independent corporate risk management and internal audit function; and
- an internal and external audit function.

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 David Jones 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.

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 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 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 25 July 2009:

- 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 are in accordance with relevant accounting standards;
- the statement referred to in the above paragraph is founded on a sound 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 in relation to financial reporting risks; and
- the financial records of David Jones for the financial period ended 25 July 2009 have been properly maintained in accordance with section 286 of the Corporations Act.

7 REMUNERATION POLICES 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 38 to 57 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 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.

CORPORATE GOVERNANCE STATEMENT

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 DESP 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.

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 39 in the Remuneration Report.

7.2 STI Scheme

Under David Jones' STI Scheme, the Executive Directors and senior employees 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 STI Scheme are provided on pages 40 to 42 in the Remuneration Report.

7.3 LTI Plan

David Jones' LTI Plan was introduced in 2001. Executive Directors and senior executives 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, conditional on the achievement of performance measures covering a three-year consecutive period.

The Board has determined that the following 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:

- TSR (all LTI Plan offers);
- EPS (2007 – 2009 offers).

In addition, selected executives are subject to NPAT and TSR measures under the FY2009 – FY2011 and FY2009 – FY2012 Retention Plans, as disclosed on pages 42 to 48 of the Remuneration Report.

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. In addition, special Retention Offers under the LTI Plan were made to ensure the ongoing tenure of key employees, in 2006 during a period of industry restructure, and more recently in 2008 to secure the delivery of the Company's FY09–FY12 strategy. Further details relating to the LTI Plan, including the Retention Offers, are provided on pages 42 to 48 in the Remuneration Report.

7.4 Other equity schemes in David Jones

The DESP is the only other active equity scheme in David Jones.

The relevant details of the scheme are contained in the Remuneration Report on page 48 and in note 29 on pages 98 to 105 of this Annual 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 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.

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 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 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 Share Trading Policy

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

- 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.

CORPORATE GOVERNANCE STATEMENT

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.

Directors, officers, members of senior management and consultants 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).

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).

Directors, officers and members of senior management are also prohibited from entering into any stock lending or other similar arrangements in relation to their security holding in the Company.

David Jones requires that Directors must advise the Chairman, and officers, members of senior management and consultants to advise the Company Secretary or Chief Executive 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 any transactions conducted by Directors.

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

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

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 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 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 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 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.

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.

8.6 Community and the environment

Information in relation to the Company's approach to the environment and the community is set out on pages 27 to 32 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.	3.5 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, 3.12, 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: <ul style="list-style-type: none"> – the practices necessary to maintain confidence in the company's integrity – the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders – 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 trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	8.4 Comply
3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3.	8.1, 8.4 Comply
Principle 4 Safeguard integrity in financial reporting		
4.1	The board should establish an audit committee.	4.4 Comply
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> – consists only of non-executive directors – consists of a majority of independent directors – is chaired by an independent chair, who is not chair of the board – has at least three members. 	4.4 Comply
4.3	The audit committee should have a formal charter.	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.	8.5 Comply
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	8.5 Comply

CORPORATE GOVERNANCE STATEMENT

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.	8.5	Comply
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	8.5	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.	4.2, 6.2, 6.3	Comply

Principle 8 Remunerate fairly and responsibly

8.1	The board should establish a remuneration committee.	4.3	Comply
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	7 and Remuneration Report	Comply
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	4.1, 4.3, 7.1, 8.4	Comply

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