DAVID JONES LIMITED ABN 75 000 074 573

RISK MANAGEMENT AND INTERNAL COMPLIANCE AND CONTROLS SYSTEMS POLICY

ADOPTED BY THE BOARD ON 23 SEPTEMBER 2004

RISK MANAGEMENT AND INTERNAL COMPLIANCE AND CONTROLS SYSTEMS POLICY

1.1 David Jones seeks to take and manage risk in ways that will generate and protect shareholder value. For David Jones, the management of risk is a continual process and an integral part of business management and corporate governance. The Company approach to risk management is to define opportunities as well as to avoid loss. David Jones' risk management strategy is aligned with our corporate strategy and Company vision, to ensure that the risk management strategy contributes to David Jones' corporate goals and objectives.

1.2 The David Jones risk management program has been designed to establish a sound system of risk oversight and management and internal controls by having the framework in place to identify, assess, monitor and manage risk. The David Jones risk management methodology has been developed in line with the Australia/New Zealand Risk Management Standard (AS/NZ 4360). The program and methodology seek to promote awareness of risks and intelligent risk taking and management in, and among, all levels of the business.

1.3 The David Jones Board determines the Company's risk appetite, or tolerance for risk, after taking into account the Company's strategic objectives and other factors including shareholder expectations, financial and capital requirements and the Company's financial position, organisational culture and the Company's experience or demonstrated capacity in managing risks.

1.4 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. Management is required to analyse its business risk in the context of Board expectations, specific business objectives and the organisation's risk appetite.

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1.5 Management has developed a risk identification, analysis and mitigation process involving an annual review of the Company's risk profile and risk management activities. As part of this review the Company's internal compliance and control system is also reviewed based on a methodology for evaluating effectiveness of internal controls (using the COSO framework and maturity model). The risk profile is analysed in the context of the Company's strategic objectives and operational activities, covering all material risks of a financial and non-financial focus. 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 reviewed at the half-year to monitor and report on the risk profile and progress with proposed activities.

1.6 A material or significant risk covered by the risk review and reporting process is an event which:

(a) if it were to occur, would have significant adverse impact on an initiative, timescale, and/or cost benefit (i.e. something that stops us meeting our objectives/executing successful strategies);

(b) has an associated probability, significance and timing;

(c) may point to the need for current and/or future action – avoidance, mitigation, contingency.

1.7 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.

1.8 In this regard, the current David Jones risk model includes risk categories covering:

(a) customers

(b) brand portfolio and competition

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(c) employees

(d) business operations

(e) compliance

(f) financial

(g) information technology and infrastructure

(h) reputation; and

(i) strategy

1.9 David Jones has a compliance and control environment to manage the significant risks to its operations, which includes the following components:

(a) clearly defined management responsibilities and organisational structure

(b) delegated limits of authority defined by a Delegations Manual

(c) accounting control and reconciliations

(d) strong management reporting systems

(e) disciplined budgeting and rolling three year strategic plan processes

(f) regular internal review and mechanisms including the operation of a Capex Committee, Property Committee, Marketing Forum and Management Committee

(g) personnel requirements for key positions

(h) segregation of duties

(i) physical and logical security over company assets

(j) appropriate policies and procedures that are widely disseminated to, and understood by, employees

(k) internal and external audit functions

(l) comprehensive risk management framework and guidelines

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1.10 The annual risk profile is used as a basis for the Company's Internal Audit program, which in turn supports the company's external audit program. Management tracks and reports to the Board on implementation of any high priority matters identified through the Internal and External Audit process, throughout the business, on a regular basis.

1.11 The formal risk report, internal and external audit function and monitoring of audit issues are all subject to the oversight of the Board Audit Committee (as per the Audit Committee Charter) which then reports to the full Board which has responsibility for overall risk management.