

Financial Report

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Annual financial report for the period ended 31 July 2010

These financial statements covers Myer Holdings Limited as an individual entity and the consolidated entity consisting of Myer Holdings Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Myer Holdings Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office is:

Myer Holdings Limited
Level 7, 800 Collins Street
Docklands VIC 3008

A description of the nature of the Company's operations and its principal activities is included in the Directors' Report on pages 8–14, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 27 September 2010. The Company has the power to amend and reissue the financial statements.

Income statement

For the period ended 31 July 2010

	Notes	Consolidated 2010 53 weeks \$'000	2009 52 weeks \$'000
Total sales value (excluding GST)	5	3,324,240	3,260,812
Concession Sales		(449,950)	(417,954)
Sale of goods (excluding GST)	5	2,874,290	2,842,858
Sales revenue deferred under customer loyalty program		(49,256)	(43,942)
Revenue from sale of goods (excluding GST)	5	2,825,034	2,798,916
Other operating revenue (excluding finance revenue)	5	103,822	95,499
Cost of goods sold		(1,672,073)	(1,669,351)
Other income	5	60,927	52,468
Operating gross profit		1,317,710	1,277,531
Selling expenses		(729,956)	(724,151)
Administration expenses		(317,449)	(317,520)
Earnings before interest and tax before non-recurring IPO transaction costs and related charges		270,305	235,861
Finance revenue	5	2,725	5,449
Finance costs	6	(44,570)	(87,626)
Net finance costs		(41,845)	(82,177)
Profit before income tax before non-recurring IPO transaction costs and related charges		228,460	153,684
Income tax expense	7	(64,926)	(44,935)
Profit for the period before non-recurring IPO transaction costs and related charges		163,534	108,749
Initial Public Offering (IPO) transaction costs and other non-recurring IPO related charges (after tax)	6	(96,352)	–
Profit for the period		67,182	108,749

	Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:		
Basic earnings per share	12.3	23.8
Diluted earnings per share	12.1	22.9

The above income statement should be read in conjunction with the accompanying notes.

Statement of comprehensive income

For the period ended 31 July 2010

	Notes	Consolidated 2010 53 weeks \$'000	2009 52 weeks \$'000
Profit for the period		67,182	108,749
Other comprehensive income			
Cash flow hedges	24(b)	8,478	(37,372)
Non-recurring IPO related transfers to profit and loss	24(b)	29,019	–
Actuarial gains/(losses) on retirement benefit obligation	22(f)	(127)	(2,128)
Income tax relating to components of other comprehensive income	7(d)	(11,249)	11,212
Other comprehensive income for the period, net of tax		26,121	(28,288)
Total comprehensive income for the period		93,303	80,460

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheet

As at 31 July 2010

	Notes	Consolidated 2010 \$'000	2009 \$'000
Assets			
Current assets			
Cash and cash equivalents	8	105,834	184,773
Trade and other receivables	9	24,045	32,897
Inventories	10	352,813	355,572
		482,692	573,242
Non-current assets classified as held for sale	12	–	28,544
Total current assets		482,692	601,786
Non current assets			
Other financial assets	13	6,004	7,635
Derivative financial instruments	11	549	–
Property, plant and equipment	14	468,050	371,699
Deferred tax assets	15	70,837	91,200
Intangible assets	16	921,020	908,862
Other		4,762	5,593
Total non-current assets		1,471,222	1,384,989
Total assets		1,953,914	1,986,775
Liabilities			
Current liabilities			
Trade and other payables	17	437,568	467,700
Derivative financial instruments	11	1,208	10,406
Current tax liabilities		9,446	6,953
Provisions	18	104,451	106,303
Other		4,741	2,853
Total current liabilities		557,414	594,215
Non current liabilities			
Borrowings	19	419,919	879,005
Derivative financial instruments	11	–	22,482
Deferred tax liabilities	20	–	–
Provisions	21	60,494	69,395
Deferred income		57,792	38,852
Other	22	855	2,704
Total non-current liabilities		539,060	1,012,438
Total liabilities		1,096,474	1,606,653
Net assets		857,440	380,122
Equity			
Contributed equity	23	517,128	84,946
Retained profits/(losses)	24	320,470	314,446
Reserves	24	19,842	(19,270)
Total equity		857,440	380,122

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the period ended 31 July 2010

Consolidated	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000
Balance as at 27 July 2008		84,872	4,390	207,825	297,087
Total comprehensive income for the period		–	(26,160)	106,621	80,460
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	23	74	–	–	74
Dividends provided for or paid	24	–	–	–	–
Employee share options	24	–	2,500	–	2,500
		74	2,500	–	2,574
Balance as at 25 July 2009		84,946	(19,270)	314,446	380,122
Total comprehensive income for the period		–	26,248	67,055	93,303
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	23	432,182	–	–	432,182
Dividends provided for or paid	24	–	–	(61,031)	(61,031)
Employee share options	24	–	12,864	–	12,864
		432,182	12,864	(61,031)	384,015
Balance as at 31 July 2010		517,128	19,842	320,470	857,440

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

For the period ended 31 July 2010

	Notes	Consolidated 2010 53 weeks \$'000	2009 52 weeks \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		3,260,846	3,226,539
Payments to suppliers and employees (inclusive of goods and services tax)		(3,027,872)	(2,982,932)
		232,974	243,607
Other revenue		70,739	61,221
Interest paid		(59,257)	(81,511)
Tax paid		(3,405)	(56,657)
Net cash (outflow)/inflow from operating activities	34	241,051	166,660
Cash flows from investing activities			
Payments for property, plant and equipment		(104,582)	(118,765)
Payments for intangible assets		(29,955)	(28,989)
Payments for other assets		–	(10)
Lease incentives received		23,700	22,000
Return of capital received from investment		1,196	800
Dividend received		–	–
Interest received		2,979	5,606
Net cash (outflow)/inflow from investing activities		(106,662)	(119,358)
Cash flows from financing activities			
Proceeds from borrowings		418,225	–
Repayment of borrowings		(645,000)	–
Repayment of Myer Notes		(139,052)	–
Funding paid to related party		–	(116)
Repayments of employee share loans		1,905	659
Funding of employee share loans		–	(2,301)
Payment for shares acquired by the Myer Equity Plans Trust		(823)	–
Proceeds from the issue of shares		314,632	74
Non-recurring finance costs associated with Initial Public Offering		(22,526)	–
Payment of costs of Initial Public Offering		(79,658)	–
Dividend paid	25	(61,031)	–
Net cash (outflow) from financing activities		(213,328)	(1,684)
Net increase (decrease) in cash and cash equivalents		(78,939)	45,618
Cash and cash equivalents at the beginning of the financial period		184,773	139,155
Cash and cash equivalents at end of period	8	105,834	184,773

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to financial statements

31 July 2010

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1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The financial statements include separate financial statements for Myer Holdings Limited as an individual entity and the consolidated entity consisting of Myer Holdings Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Financial periods

The 2010 financial period represents 53 weeks ended 31 July 2010, the comparative financial period represents 52 weeks ended 25 July 2009.

Compliance with IFRS

The consolidated financial statements of Myer Holdings Limited Group and the separate financial statements of Myer Holdings Limited also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss and certain classes of property, plant and equipment.

Critical accounting estimates

The preparation of financial statements in conformity with accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Financial statement presentation

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective for reporting periods on or after 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Myer Holdings Limited (Company or parent entity) as at 31 July 2010 and the results of all subsidiaries for the period then ended. Myer Holdings Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Employee Share Trust

The Group has formed a trust to administer the Group's employee share scheme. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

Shares in Myer Holdings Limited held by the Myer Equity Plans Trust are disclosed as treasury shares and deducted from contributed equity.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

Change in accounting policy

The Group has adopted AASB 8 *Operating Segments* from 26 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in an increase in the number of reported segments presented. There has been no impact on the measurement of the Company's assets and liabilities.

(d) Foreign currency translation**(i) Functional and presentation currency**

The financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges.

(e) Revenue recognition

Total sales value presented on the income statement represents proceeds from sale of goods from sales (both by Myer and concession operators) generated in Myer stores and prior to the deferral of revenue under the customer loyalty program. Concession sales presented in income statement represents sales proceeds of concession operators within Myer stores. Total sales value is disclosed to show the total sales generated in Myer stores and provide a basis of comparison with similar department stores.

Revenue from the sale of goods, excluding lay-by transactions, is recognised at the point of sale and is after deducting taxes paid, and does not include concession sales. Allowance is made for expected sales returns based on past experience of returns and expectations about the future. A provision for sales returns is recognised based on this assessment. Revenue from lay-by transactions is recognised as part of revenue from the sale of goods at the date upon which the customer satisfies all payment obligations and takes possession of the merchandise.

Revenue from sale of goods excludes concession sales on the basis that the inventory sold is owned by the concession operator at the time of sale and not Myer. Myer's share of concession sales is recognised as income within other operating revenue at the time the sale is made.

Interest income is recognised on a time proportion basis using the effective interest method. Dividends are recognised as revenue when the right to receive payment is established.

Customer loyalty program

The Group operates a loyalty program where customers accumulate points for purchases made which entitle them to discounts on future purchases. The award points are recognised as a separately identifiable component of the initial sale transaction, by allocating the fair value of the consideration received between the award points and the other components of the sale such that the award points are recognised at their fair value. Revenue from the award points is recognised when the points are redeemed. The amount of revenue is based on the number of points redeemed relative to the total number expected to be redeemed. Award points expire 24 months after the initial sale.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exemption is made for certain temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised in other comprehensive income or directly in equity are also recognised directly in other comprehensive income or equity.

(g) Leases

Leases of property, plant and equipment in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 29). Lease incentives received on entering into operating leases are recognised as deferred income and are amortised over the lease term. Payments made under operating leases (net of any amortised deferred income) are charged to the income statement on a straight-line basis over the period of the lease.

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases. There were no finance leases in place during the reporting period.

Notes to financial statements *continued*

31 July 2010

1 Summary of significant accounting policies (continued)

(h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). For store assets, the appropriate cash-generating unit is an individual store. Non financial assets other than goodwill that have previously suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(j) Trade receivables

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(k) Inventories

At the end of the reporting period, all inventories are valued at the lower of cost and net realisable value. Cost is determined using the weighted average cost method, after deducting any purchase settlement discount and including logistics expenses incurred in bringing the inventories to their present location and condition.

Volume-related supplier rebates and supplier promotional rebates are recognised as a reduction in the cost of inventory and are recorded as a reduction of cost of goods sold when the inventory is sold.

(l) Investments and other financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluates this designation at the end of each reporting period.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designated as hedges.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (note 9).

(iii) Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and substantially all the risks and rewards of ownership have been transferred.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value, unless they are equity securities that do not have a market price quoted in an active market and whose fair value cannot be reliably measured. In that case they are carried at cost.

Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in profit or loss within other income or other expenses in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss as gains and losses from investment securities.

Details on how the fair value of financial instruments is determined are disclosed in note 2.

The Group assesses at each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available for sale are not reversed through profit or loss.

(m) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or
- hedges of the cash flows or recognised assets or liabilities and highly probable forecast transactions (cash flow hedges)

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit or loss.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance costs. When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

Notes to financial statements *continued*

31 July 2010

1 Summary of significant accounting policies (continued)

(n) Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost net of their residual values, over their estimated useful lives, as follows:

– Buildings	40 years
– Fixtures and fittings	3 – 12.5 years
– Plant and equipment	15 – 20 years
– Leasehold improvements	20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Non-current assets held for sale

Non-current assets are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet.

(o) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisitions of businesses is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Brand names and trademarks

The Myer Brand is considered to have an indefinite life. The Brand is not considered to have a foreseeable brand maturity date, and has accordingly been assessed as having an indefinite useful life and is therefore not amortised. Instead, the brand name is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Other brands have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of brands over their estimated useful life of 20 years.

(iii) Computer software

All costs directly incurred in the purchase or development of major computer software or subsequent upgrades and material enhancements, which can be reliably measured and are not integral to a related asset, are capitalised as intangible assets. Direct costs may include internal payroll and on-costs for employees directly associated with the project. Costs incurred on computer software maintenance or during the planning phase are expensed as incurred. Computer software is amortised over the period of time during which the benefits are expected to arise, being 5 to 10 years.

(iv) Lease rights

Lease rights represent the amount paid up-front to take over store site leases from the existing lessee where such payments are in addition to the ongoing payment of normal market lease rentals. Lease rights are amortised over the term of the lease plus any renewal options reasonably certain to be utilised at the time of acquisition of the lease rights, being 13 to 17 years.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. The amounts are unsecured and are usually paid within 30 to 60 days of recognition.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(r) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

The Group is self-insured for costs relating to workers' compensation and general liability claims in certain states. Provisions are recognised based on claims reported, and an estimate of claims incurred but not yet reported, prior to balance date. These provisions are determined utilising an actuarially determined method, which is based on various assumptions including but not limited to future inflation, average claim size and claim administrative expenses. These assumptions are reviewed annually and any reassessment of these assumptions will affect the workers' compensation expense.

(t) Employee benefits**(i) Short-term obligations**

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

The Group contributes to a number of superannuation funds that have been established to provide benefits for employees. Apart from one defined benefit fund, with a range of member categories, all funds are defined contribution funds, and contributions to them are recognised as an expense as they become payable.

The defined benefit fund that the Group contributes to is currently administered through Mercer Human Resource Consulting within a Mercer Master Trust arrangement on behalf of Myer. The defined benefit fund provides defined lump sum pension benefits based on years of service and final average salary. Myer defined benefit members who were members of the Coles Myer Defined Benefit Fund were transferred to the Myer Fund effective 2 June 2006. The Fund is closed to new members and only existing defined benefit members were eligible for membership.

A liability or asset in respect of the defined benefit fund is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the end of the reporting period less the fair value of the fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments that arise from membership of the fund to the end of the reporting period, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the end of the reporting period on government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, outside profit or loss directly in the statement of comprehensive income.

(iv) Profit sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit sharing based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Notes to financial statements *continued*

31 July 2010

1 Summary of significant accounting policies (continued)

(t) Employee benefits (continued)

(vi) Share-based payments

Share-based compensation benefits are provided to employees via the Myer Equity Incentive Plan. Information relating to these schemes is set out in note 37.

The fair value of options granted under the plan is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions but excludes the impact of any services and non-market performance vesting conditions and the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of revisions to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Since the start of the financial period, the Myer Equity Incentive Plan is administered by the Myer Equity Plans Trust; see note 1(b)(iii).

(vii) Employee Share Acquisition Plan – Gift shares

At the time of the IPO and as disclosed in the associated Prospectus, eligible employees were entitled to participate in the Employee Gift Offer. Eligible employees were offered the opportunity to acquire, at no cost, the nearest number of shares up to the value of \$725. The cost of the shares issued has been expensed to the Income Statement.

(u) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(v) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial period but not distributed at balance date.

(w) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the period and excluding treasury shares (note 23).

(i) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(x) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities, which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(y) Rounding of amounts

The Group has taken advantage of Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(z) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 July 2010 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations, that were considered relevant for the consolidated entity, is set out below.

(i) AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions [AASB 2] (effective from 1 January 2010)*

The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as an equity – or a cash-settled transaction. The group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the Group's or the parent entity's financial statements.

(ii) AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]

(effective from 1 February 2010)

In October 2009 the AASB issued an amendment to AASB 132 *Financial Instruments: Presentation* which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Group will apply the amended standard from 1 July 2010. As the Group has not made any such rights issues, the amendment will not have any effect on the Group's or the parent entity's financial statements.

(iii) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9
(effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact. However, initial indications are that it may affect the group's accounting for its available for sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. The Group has not yet decided when to adopt AASB 9.

(iv) AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement
(effective from 1 January 2011)

In December 2009, the AASB made an amendment to Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The Group does not make any such prepayments. The amendment is therefore not expected to have any impact on the Group's or the parent entity's financial statements. The Group intends to apply the amendment from 1 July 2011.

(aa) Parent entity financial information

The financial information for the parent entity, Myer Holdings Limited, disclosed in note 35 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries

Investment in subsidiaries are accounted for at cost in the financial statements of Myer Holdings Limited.

(ii) Tax consolidation legislation

Myer Holdings Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Myer Holdings Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Myer Holdings Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate Myer Holdings Limited for any current tax payable assumed and are compensated by Myer Holdings Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Myer Holdings Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The funding amounts are recognised as current intercompany receivables or payables.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(ab) Comparative amounts

Where current period balances have been classified differently within current period disclosures when compared to the prior period, comparative disclosures have been restated to ensure consistency of presentation between periods.

Notes to financial statements continued

31 July 2010

2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risk, and an ageing analysis for credit risk.

Risk management is carried out by the Company under policies approved by the Board of Directors. The Company identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, and use of financial instruments and non-derivative financial instruments.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group sources inventory purchases overseas and is exposed to foreign exchange risk, particularly in relation to currency exposures to the US dollar.

To minimise the effects of a volatile and unpredictable exchange rate Group policy is to enter into forward exchange contracts in relation to the Group's overseas purchases for any 12-month period. The actual level of cover taken fluctuates depending on the period until settlement of the foreign currency transaction, within the Board-approved hedging policy. This policy allows cover to be taken on a sliding scale between 25 – 100% depending on the period to maturity (up to 12 months).

The Group's exposure to foreign currency risk at the end of the reporting period was as follows:

	USD \$'000	31 July 2010 Euro \$'000	HKD \$'000	USD \$'000	25 July 2009 Euro \$'000	HKD \$'000
Trade payables	9,946	235	25	10,430	153	–
Forward exchange contracts	82,300	1,490	–	77,300	–	–

The parent entity's financial assets and liabilities are denominated in Australian dollars.

Group sensitivity

Based on the financial instruments held at 31 July 2010, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's post-tax profit for the period would have been \$0.7 million higher/\$0.9 million lower (2009: \$0.8 million higher/\$1.0 million lower), mainly as a result of foreign exchange gains/losses on translation of US dollar denominated financial instruments as detailed in the above table.

Other components of equity would have been \$5.3 million higher/\$6.5 million lower (2009: \$5.2 million higher/\$6.4 million lower) had the Australian dollar weakened/strengthened by 10% against the US dollar, arising from foreign exchange contracts designated as cash flow hedges. The Group's exposure to other foreign exchange movements is not material.

These sensitivities were calculated based on the Group's period end spot rate for the applicable reporting period.

(ii) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk as it borrows funds at floating interest rates. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. The risks are managed by the use of floating to fixed interest rate swap contracts. During the period, the Group policy was to fix the rates between 0 to 30% of its term debt facility. This policy had been complied with at the period end.

Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

As at the end of the reporting period, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	31 July 2010		25 July 2009	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Borrowings – Variable	7.0%	419,919	4.4%	630,604
Interest rate swaps (notional principal amount)	6.6%	(50,000)	7.5%	(473,936)
Net exposure to cash flow interest rate risk		369,919		156,668

The weighted average interest rates noted above for both borrowings and swaps are inclusive of margins applicable to the underlying variable rate borrowings.

An analysis by maturities is provided in (c) below.

Interest rate exposure is evaluated regularly to confirm alignment with Group policy and to ensure the Group is not exposed to excess risk from interest rate volatility.

At 31 July 2010, if interest rates had changed by +/- 10% from the period end rates with all other variables held constant, post-tax profit for the period would have been \$1.2 million higher/\$1.2 million lower (2009: change of +/- 10%: \$0.8 million higher/\$0.8 million lower), mainly as a result of higher/lower interest expense on borrowings.

Other components of equity would have been \$0.5 million lower/\$0.5 million higher (2009: \$4.5 million lower/\$4.5 million higher) mainly as a result of an increase/decrease in the fair value of the cash flow hedges of borrowings.

The range of sensitivities have been assumed based on the Group's experience of average interest rate fluctuations in the applicable reporting period.

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. Sales to retail customers are primarily required to be settled in cash or using major credit cards, mitigating credit risk. Where transactions are settled by way of lay-by arrangements, revenue is not recognised until full payment has been received from the customer and goods collected.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of the financial assets as disclosed in notes 8, 9, 11 and 13.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings as detailed below, historical information about receivables default rates and current trading levels.

Notes to financial statements *continued*

31 July 2010

2 Financial risk management (continued)

(b) Credit risk (continued)

Based on the credit history of these classes, it is expected that these amounts will be received and are not impaired.

	Consolidated	
	2010 \$'000	2009 \$'000
Trade receivables		
0-30 days	13,704	5,695
30-60 days	1,474	1,677
60-90 days	217	1,295
90+ days	1,162	3,277
Total trade receivables	16,557	11,944
Cash at bank and short-term bank deposits		
AAA	–	–
AA	105,834	184,773
A	–	–
	105,834	184,773
Derivative financial assets		
AAA	–	–
AA	549	–
A	–	–
	549	–

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and due to close out market positions. Due to the seasonal nature of the retail business, the Group has in place flexible funding facilities to ensure liquidity risk is minimised.

Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	Consolidated	
	2010 \$'000	2009 \$'000
Floating rate		
Expiring beyond one year (revolving cash advance facility)	200,000	273,617

The revolving cash advance facility may be drawn at any time and has an expiry date of 28 October 2012, subject to the Group continuing to meet its covenants.

Maturities of financial liabilities

The tables on the following page analyse the Group's financial liabilities into relevant maturity groups as follows:

- based on their contractual maturities:
 - all non-derivative financial liabilities, and
 - net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows
- based on the remaining period to the expected settlement date:
 - derivative financial liabilities for which the contractual maturities are not essential for an understanding of the timing of the cash flows

The amounts disclosed in the tables are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

	Less than 6 months \$'000	6 – 12 months \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying amount (assets)/ liabilities \$'000
Group – 31 July 2010							
Non-derivatives							
Non-interest bearing	437,568	–	–	–	–	437,568	437,568
Variable rate	15,094	15,784	33,084	439,753	–	503,715	419,919
Fixed rate	–	–	–	–	–	–	–
Total non-derivatives	452,662	15,784	33,084	439,753	–	941,283	857,487
Derivatives							
Net settled (interest rate swaps)	(91)	(125)	(275)	–	–	(491)	(549)
Gross settled							
– (inflow)	(66,825)	(28,378)	–	–	–	(95,203)	–
– outflow	67,893	28,518	–	–	–	96,411	1,208
Total derivatives	977	15	(275)	–	–	717	659
Group – 25 July 2009							
Non-derivatives							
Non-interest bearing	467,700	–	–	–	–	467,700	467,700
Variable rate	14,183	14,966	36,679	710,016	–	775,844	630,604
Fixed rate	13,104	12,890	25,994	294,169	–	346,157	248,401
Total non-derivatives	494,987	27,856	62,673	1,004,185	–	1,589,701	1,346,705
Derivatives							
Net settled (interest rate swaps)	7,302	8,354	11,191	2,212	–	29,059	22,482
Gross settled							
– (inflow)	(66,115)	(29,752)	–	–	–	(95,867)	–
– outflow	74,690	31,582	–	–	–	106,272	10,406
Total derivatives	15,877	10,184	11,191	2,212	–	39,464	32,888

Notes to financial statements *continued*

31 July 2010

2 Financial risk management (continued)

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As of 26 July 2009, Myer Holdings Limited has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurement by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liabilities either directly (as prices) or indirectly (derived from prices) (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities measured and recognised at fair value at 31 July 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

Group – at 31 July 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivatives used for hedging	–	549	–	549
Total assets	–	549	–	549
Liabilities				
Derivatives used for hedging	–	1,208	–	1,208
Total liabilities	–	1,208	–	1,208

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses quoted market prices or dealer quotes of similar instruments in order to estimate fair value for long-term debt instruments held. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise derivative financial instruments.

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

(i) Income taxes

The Group is subject to income taxes in Australia. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises tax assets and liabilities based on its best estimate of the tax implications of the underlying transactions. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current tax provision and deferred tax assets and liabilities in the period in which the final determination is made.

(ii) Impairment

The Group tests annually whether goodwill and indefinite lived intangibles have suffered any impairment, in accordance with the accounting policy stated in note 1(h). The recoverable amount of cash generating units have been determined based on value in use calculations at a store level. Goodwill and certain intangibles can only be tested for impairment at the level of the Myer Group as a whole. These calculations require the use of assumptions. Refer to note 16 for details of these assumptions. Should assumptions about future cash flows prove incorrect, the Group may be at risk of impairment write-downs.

(iii) Recoverable amount of inventory

Management have assessed the value of inventory that is likely to be sold below cost using past experience and judgement on the likely sell through rates of various items of inventory, and booked a provision for this amount. To the extent that these judgements and assumptions prove incorrect, the Company may be exposed to potential additional inventory write-downs in future periods.

4 Segment information

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer that are used to make strategic decisions about the allocation of resources.

The Chief Executive Officer considers the business based on the total store and product portfolio, and has identified that the Group operates in one business segment, department store retail, and one geographical segment, Australia.

5 Revenue and Other income

	Consolidated 2010 53 weeks \$'000	2009 52 weeks \$'000
Revenue from continuing operations		
Sales revenue		
Total sales value (excluding GST)	3,324,240	3,260,812
Concession sales	(449,950)	(417,954)
Sale of goods (excluding GST)	2,874,290	2,842,858
Sales revenue deferred under customer loyalty program	(49,256)	(43,942)
Revenue from sale of goods (excluding GST)	2,825,034	2,798,916
Other revenue		
Concessions revenue	103,712	95,347
Rental revenue	110	152
	103,822	95,499
Finance revenue	2,725	5,449
Total revenue	2,931,581	2,899,864
Other income from continuing operations		
Insurance proceeds	–	9,539
Other	60,927	42,929
	60,927	52,468

Other income from continuing operations includes revenue in relation to the financial services business, forfeited lay-by deposits, customer delivery fees, commission on EFT transactions, gift card non-redemption income and profit underpinning received in relation to the Myer Melbourne store redevelopment.

Notes to financial statements continued

31 July 2010

6 Expenses

	Consolidated 2010 53 weeks \$'000	2009 52 weeks \$'000
Profit before income tax includes the following specific expenses:		
Total depreciation, amortisation, write off expense	65,465	65,199
Finance costs		
Interest and finance charges paid/payable	44,297	82,176
Fair value (gains)/losses on interest rate swap cash flow hedges – transfer from equity	273	5,450
Finance costs expensed	44,570	87,626
Rental expense relating to operating leases		
Minimum lease payments	167,443	159,062
Contingent rentals	8,537	10,222
Total rental expense relating to operating leases	175,980	169,284
Foreign exchange (gains)/losses		
Net foreign exchange (gains)/losses	(9,449)	(5,193)
Net loss/(gain) on foreign currency derivatives not qualifying as hedges	–	(2,465)
	(9,449)	(7,658)
Defined contribution superannuation expense	33,944	34,194
Impairment of assets – inventory	16,211	15,234
Employee benefits expense including defined contribution superannuation expense	456,116	454,750
Profit for the period includes the following items that are unusual because of their nature, size or incidence:		
Expenses incurred in relation to the Initial Public Offering of shares in the Company, classified as:		
– Administration expenses	78,094	–
– Net Finance Costs	56,785	–
Total expenses incurred in relation to the Initial Public Offering of shares in the Company	134,879	–
Less: Applicable income tax benefit	(38,527)	–
	96,352	–

On 2 November 2009, the Company was listed on the Australian Securities Exchange (ASX). This process combined with the Initial Public Offer of shares in the Company, resulted in the Company incurring significant one-off expenses during the current period that do not form part of the ongoing operations of the business. Costs categorised as administration expenses represent costs incurred in executing the float process (\$65.8 million, comprising advisors fees, registry fees, prospectus costs, offer advertising costs, etc.), as well as internal costs, including an expense on the issue of gift shares to employees at listing (\$6.3 million) and the current period charge to the income statement in relation to retention bonuses payable to key staff (\$6.0 million). IPO transaction costs have been capitalised against share capital to the extent that they relate to the raising of new equity. Costs categorised as net finance costs represent the expense recognised on cancellation of interest rate swaps at refinancing, the write-off of capitalised borrowing costs related to refinanced debt, and the recognition of the discount/premium on exchange/redemption of Myer Notes.

7 Income tax expense

	Consolidated 2010 53 weeks \$'000	2009 52 weeks \$'000
(a) Income tax expense		
Current tax	13,013	27,989
Deferred tax	13,386	16,946
	26,399	44,935
Income tax expense is attributable to:		
Profit from continuing operations	26,399	44,935
Aggregate income tax expense	26,399	44,935
Income tax expense from operations before IPO costs	64,926	44,935
Income tax benefit on IPO costs	(38,527)	–
	26,399	44,935
Deferred income tax (revenue) expense included in income tax expense comprises:		
(Increase) decrease in deferred tax assets (note 15)	9,067	15,991
(Decrease) increase in deferred tax liabilities (note 20)	4,319	955
	13,386	16,946
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) from continuing operations before income tax expense including IPO transaction costs and other non-recurring IPO related charges and before income tax expense	93,581	153,684
Tax at the Australian tax rate of 30% (2009: 30%)	28,074	46,105
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible legal fees	–	36
Non-deductible entertainment	87	97
Sundry items	24	151
	28,185	46,389
Adjustments for current tax of prior periods	(1,786)	(1,454)
Income tax expense	26,399	44,935
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Net deferred tax – debited/(credited) directly to equity (notes 23 & 24(b))	11,387	–
	11,387	–
(d) Tax expense/(income) relating to items of other comprehensive income		
Cash flow hedges	(11,249)	11,212
	(11,249)	11,212

During the prior financial period, the Group was advised by the Australian Tax Office that they were undertaking an audit of the Group's income tax affairs in relation to the 2006 and 2007 income tax years. This audit is currently still in progress, however the Company does not believe that a material exposure exists.

Notes to financial statements continued

31 July 2010

8 Current assets – Cash and cash equivalents

	Consolidated	
	2010 \$'000	2009 \$'000
Cash on hand	3,165	3,289
Cash at bank	102,669	181,484
	105,834	184,773

(a) Risk exposure

The Group's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

9 Current assets – Trade and other receivables

	Consolidated	
	2010 \$'000	2009 \$'000
Trade receivables	16,847	12,497
Provision for impairment of receivables (note(a))	(290)	(553)
	16,557	11,944
Receivables from related entities	–	–
Employee share loans	285	2,136
Other receivables	3,072	3,364
Prepayments	4,131	15,453
	7,488	20,953
	24,045	32,897

Further information relating to loans to Key Management Personnel is set out in note 26.

(a) Impaired trade receivables

As at 31 July 2010 current trade receivables of the Group with a nominal value of \$279 thousands (2009: \$561 thousands) were impaired. The amount of the provision was \$290 thousands (2009: \$553 thousands). The individually impaired receivables mainly relate to wholesalers.

The ageing of these receivables is as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
0-30 days	–	3
30-60 days	–	2
60-90 days	–	38
90+ days	279	518
	279	561

Movements in the provision for impairment of receivables are as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
At 25 July 2009	553	526
Provision for impairment recognised during the period	79	303
Receivables written off during the period as uncollectible	(342)	(276)
Unused amount reversed	–	–
	290	553

The creation and release of the provision for impaired receivables has been included in 'administration expenses' in profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(b) Past due but not impaired

As of 31 July 2010, trade receivables of \$5,241 thousands (2009: \$8,756 thousands) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
Up to 3 months	3,787	4,914
3 to 6 months	1,454	3,842
	5,241	8,756

Based on the credit history of these classes, it is expected that these amounts will be received and are not impaired.

(c) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 2.

(d) Fair values and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entities trade receivables.

10 Current assets – Inventories

	Consolidated	
	2010 \$'000	2009 \$'000
Retail inventories	352,813	355,572

11 Derivative financial instruments

	Consolidated	
	2010 \$'000	2009 \$'000
Current assets		
Interest rate swap contracts	–	–
Forward foreign exchange contracts	–	–
Total current derivative financial instrument assets	–	–
Non current assets		
Interest rate swap contracts	549	–
Total non current derivative financial instrument assets	549	–
Current liabilities		
Forward foreign exchange contracts	1,208	10,406
Total current derivative financial instrument liabilities	1,208	10,406
Non current liabilities		
Interest rate swap contracts	–	22,482
Total non current derivative financial instrument liabilities	–	22,482

(a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 2).

Notes to financial statements *continued*

31 July 2010

11 Derivative financial instruments (continued)

(i) Interest rate swap contracts

Bank loans of the Group currently bear an average variable interest rate of 6.97% (2009: 4.41%). It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

Swaps currently in place cover approximately 12% (2009: 75%) of the Group's debt facility (refer to note 19 for details of the Group's borrowings). The notional principal amounts used in the swap agreements match the terms of the debt facilities. In relation to the debt facilities the fixed interest rates range between 4.35% and 4.75% (2009: 4.29% and 7.29%) and the variable rates under the swap agreements are the Bank Bill Swap Rate bid (BBSY Bid).

The contracts require settlement of net interest receivable or payable each three months. The contracts are settled on a net basis.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedged interest expense is recognised. In the period ended 31 July 2010, \$29.3 million was reclassified in profit and loss (2009: \$5.4 million) and included in finance cost or IPO costs. There was no hedge ineffectiveness in the current period.

(ii) Forward exchange contracts – cash flow hedges

The Group makes purchases in numerous currencies primarily US dollars. In order to protect against exchange rate movements, the Group has entered into forward exchange contracts to purchase US dollars.

These contracts are hedging highly probable forecasted purchases for the ensuing financial period. The contracts are timed to mature when payments for shipments of inventory are scheduled to be made.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flows occur, the Group adjusts the initial measurement of the inventory recognised in the balance sheet by the related amount deferred in equity.

During the period ended 31 July 2010, a gain of \$1.6 million (2009: loss \$2.3 million) was reclassified from equity and included in the cost of inventory. There was no hedge ineffectiveness in the current or prior period.

(iii) Forward exchange contracts – held for trading

In the prior period the Group had further entered into forward exchange contracts which were economic hedges but did not satisfy the requirements for hedge accounting. These contracts were subject to the same risk management policies as all other derivative contracts, see note 2 for details. However, they are accounted for as held for trading.

The documentation supporting these contracts did not meet the requirements for hedge accounting under AASB 139 *Financial Instruments: Recognition and Measurement*. As a result, the contracts were fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity, and any changes in fair values are taken to profit or loss immediately.

At balance date the fair value of these contracts were nil (2009: nil). There was no gain or loss (2009: \$2.5 million gain) recognised in the consolidated current period profit or loss for the movement in the fair value from the prior period.

(b) Risk exposures

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial assets mentioned above.

12 Current assets – Non-current assets classified as held for sale

	Consolidated	
	2010	2009
	\$'000	\$'000
Land and buildings	–	28,544
Total Non-current assets classified as held for sale	–	28,544

In a prior period the Group announced it was seeking expressions of interest in relation to the disposal of the three regional store properties owned in Bendigo, Dubbo and Wagga. As a result, these properties were classified as held for sale. As these properties are yet to be sold they have now been reclassified back into property, plant and equipment.

13 Non current assets – Other financial assets

	Consolidated 2010 \$'000	2009 \$'000
Available for sale financial assets	6,004	7,635
	6,004	7,635

Available for sale financial assets represent the consolidated entity's interest in equity securities of Harsyn Pty Ltd (holding company of Harris Scarfe Australia Pty Ltd) and Australian Geographic Retail Pty Ltd. These equity securities do not have a quoted market price or active market, and therefore their fair value cannot be reliably measured. As a result they are carried at cost.

14 Non-current assets – Property, plant and equipment

Consolidated	Freehold land \$'000	Freehold buildings \$'000	Fixtures and fittings \$'000	Plant & equipment \$'000	Capital works in progress \$'000	Total \$'000
At 26 July 2008						
Cost	–	–	215,982	118,545	41,180	375,707
Accumulated depreciation	–	–	(54,317)	(26,525)	–	(80,842)
Net book amount	–	–	161,665	92,020	41,180	294,865
Period ended 25 July 2009						
Opening net book amount	–	–	161,665	92,020	41,180	294,865
Additions	–	–	26,666	33,471	64,306	124,443
Transfer between classes	–	–	(9,438)	40,855	(31,417)	–
Assets written off	–	–	(407)	(2)	–	(409)
Depreciation charge	–	–	(27,854)	(19,346)	–	(47,200)
Closing net book amount	–	–	150,632	146,998	74,069	371,699
At 25 July 2009						
Cost	–	–	241,454	192,868	74,069	508,391
Accumulated depreciation	–	–	(90,822)	(45,870)	–	(136,692)
Net book amount	–	–	150,632	146,998	74,069	371,699
Period ended 31 July 2010						
Opening net book amount	–	–	150,632	146,998	74,069	371,699
Assets reclassified from held for sale – cost	10,100	19,500	–	–	–	29,600
Assets reclassified from held for sale – accumulated depreciation	–	(1,056)	–	–	–	(1,056)
Additions	–	–	871	6,431	106,751	114,053
Transfer between classes	–	–	104,149	2,462	(106,997)	(386)
Assets written off – cost	–	–	(3,439)	(8,636)	–	(12,075)
Assets written off – accumulated depreciation	–	–	2,840	5,263	–	8,103
Depreciation charge	–	(975)	(26,224)	(14,689)	–	(41,888)
Closing net book amount	10,100	17,469	228,829	137,829	73,823	468,050
At 31 July 2010						
Cost	10,100	19,500	343,035	193,125	73,823	639,583
Accumulated depreciation	–	(2,031)	(114,206)	(55,296)	–	(171,533)
Net book amount	10,100	17,469	228,829	137,829	73,823	468,050

Notes to financial statements continued

31 July 2010

15 Non-current assets – Deferred tax assets

	Consolidated	
	2010	2009
	\$'000	\$'000
The balance comprises temporary differences attributable to:		
Property, plant, equipment and software	–	9,891
Employee benefits	18,544	19,471
Non-employee provisions	26,708	32,716
Deferred income	3,636	11,943
Amortising deductions	19,404	–
Other	11,822	22,138
	80,114	96,158
Set off of deferred tax liabilities pursuant to set-off provisions (note 20)	(9,277)	(4,958)
Net deferred tax assets	70,837	91,200
Movements:		
Opening balance at 25 July 2009	96,158	102,794
Credited/(charged) to profit or loss (note 7)	(9,067)	(15,991)
Credited/(charged) directly to equity	4,272	–
Credited/(charged) to other comprehensive income	(11,249)	12,124
Reallocation from deferred tax liabilities	–	(2,767)
Closing balance at 31 July 2010	80,114	96,158

16 Non-current assets – Intangible assets

Consolidated	Goodwill \$'000	Brand names and trademarks ¹ \$'000	Software \$'000	Lease rights \$'000	Total \$'000
At 26 July 2008					
Cost	349,534	391,900	122,424	48,540	912,398
Accumulated amortisation	–	(805)	(11,395)	(3,240)	(15,440)
Net book amount	349,534	391,095	111,029	45,300	896,958
Period ended 25 July 2009					
Opening net book amount	349,534	391,095	111,029	45,300	896,958
Acquisition of business	–	–	–	–	–
Other additions	–	–	28,989	–	28,989
Assets written off	–	–	–	–	–
Amortisation charge ²	–	(345)	(11,637)	(5,103)	(17,085)
Closing net book amount	349,534	390,750	128,381	40,197	908,862
At 25 July 2009					
Cost	349,534	391,900	151,413	48,540	941,387
Accumulated amortisation	–	(1,150)	(23,032)	(8,343)	(32,525)
Net book amount	349,534	390,750	128,381	40,197	908,862
Period ended 31 July 2010					
Opening net book amount	349,534	390,750	128,381	40,197	908,862
Acquisition of business	–	–	–	–	–
Other additions	–	120	29,449	–	29,569
Transfer between classes	–	–	386	–	386
Assets written off	–	–	–	–	–
Amortisation charge ²	–	(345)	(12,525)	(4,927)	(17,797)
Closing net book amount	349,534	390,525	145,691	35,270	921,020
At 31 July 2010					
Cost	349,534	392,020	181,248	48,540	971,342
Accumulated amortisation	–	(1,495)	(35,557)	(13,270)	(50,322)
Net book amount	349,534	390,525	145,691	35,270	921,020

1 Brand names and trademarks include the Myer brand name, which has an indefinite useful life. The carrying amount of the Myer brand name at 31 July 2010 was \$385 million (2009: \$385 million).

2 Amortisation of \$17.8 million (2009: \$17.1 million) is included in administration and selling expenses in profit or loss.

(a) Impairment tests for goodwill and intangibles with an indefinite useful life

The goodwill arising on the acquisition of the Myer business cannot be allocated to the Group's individual cash generating units (the Group's stores), and hence has been allocated to the business as a whole. Similarly, the Myer brand name, which has an indefinite useful life, has been allocated to the business as a whole.

AASB 136 *Impairment of Assets* requires goodwill and intangible assets with an indefinite useful life to be tested annually for impairment. In testing these assets for impairment, the recoverable amount of the business has been determined using a value in use calculation. This calculation uses cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond five periods are extrapolated using an estimated growth rate of 3%. Key assumptions used in the calculation were as follows:

- discount rate (pre-tax) 12.7%
- terminal growth rate 3%
- operating gross profit margin 40%

Neither goodwill nor the Myer brand were impaired at the end of the reporting period. Sensitivity analysis on reasonably possible changes in assumptions did not result in an outcome where an impairment would be required.

Notes to financial statements continued

31 July 2010

17 Current liabilities – Trade and other payables

	Consolidated	
	2010 \$'000	2009 \$'000
Trade payables	216,588	224,471
Payables to related entities	–	2,778
Other payables	220,980	240,451
	437,568	467,700

Trade and other payables are non-interest bearing.

18 Current liabilities – Provisions

	Consolidated	
	2010 \$'000	2009 \$'000
Employee benefits	77,542	81,953
Workers' compensation	17,324	15,153
Sales returns	3,446	3,285
Other	6,139	5,912
	104,451	106,303

(a) Workers' compensation

The amount represents a provision for potential workers' compensation claims in certain states.

(b) Sales returns

The amount represents a provision for potential sales returns under the Group's returns policy.

(c) Movements in provisions

Movements in each class of provision during the financial period, other than employee benefits, are set out below.

	Workers' compensation \$'000	Sales returns \$'000	Other \$'000	Total \$'000
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2010 consolidated

Current

Carrying amount at start of period	15,153	3,285	5,912	24,350
Additional provisions recognised during the period	5,983	3,446	3,233	12,662
Amounts utilised during the period	(3,812)	(3,285)	(3,006)	(10,103)
Carrying amount at end of period	17,324	3,446	6,139	26,909

	Workers' compensation \$'000	Sales returns \$'000	Other \$'000	Total \$'000
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2009 consolidated

Current

Carrying amount at start of period	9,365	3,488	14,895	27,748
Additional provisions recognised during the period	9,222	3,285	7,708	20,215
Amounts utilised during the period	(3,434)	(3,488)	(16,691)	(23,613)
Carrying amount at end of period	15,153	3,285	5,912	24,350

19 Borrowings

	Consolidated	
	2010	2009
	\$'000	\$'000
Non-current borrowings		
Bank loans	419,919	630,604
Myer Notes	–	248,401
Total borrowings	419,919	879,005

(a) Structure of debt

The debt funding of the Group at 31 July 2010 comprised bank loan facilities. The loan facilities comprise the following:

- Term cash advance facility: \$425 million; and
- Revolving cash advance facility: \$200 million

These loans were established on 29 October 2009, and drawn down for the first time on 6 November 2009. At balance date, the following amounts remain drawn down:

	2010	2009
	\$'000	\$'000
Term cash advance facility	425,000	–
Senior term debt	–	645,000
Myer Notes	–	255,000
	425,000	900,000
Less borrowing costs	(5,081)	(20,995)
Net borrowings per balance sheet	419,919	879,005

(i) Bank loan facilities

The terms and conditions of the Group's bank loan facilities are as follows:

Loan facilities	Description	Term
Term cash advance facility	Term loan facility	3 years from 29 October 2009
Revolving cash advance facility	Revolving facility	3 years from 29 October 2009

The Term cash advance facility is a term loan facility repayable at maturity on 29 October 2012. Any amounts repaid during the term may not be redrawn. The Revolving cash advance facility is revolving, so that amounts repaid may be redrawn during its term.

During the current period the previous Senior term debt facility was repaid.

(ii) Myer Notes

In a prior period, the Group issued 2,550,000 Myer Notes at an issue price of \$100 to fund the repayment of existing Subordinated Debt of \$225 million. The notes were listed on the Australian Securities Exchange with a maturity date of 15 March 2013.

As part of the Initial Public Offer of shares in the Company and the listing of shares on the Australian Securities Exchange, Myer Noteholders were able to exchange Myer Notes for shares at 97.5% of the final share price under the offer. Any outstanding Notes were redeemed by Myer at a premium of 2.5% to the principal amount outstanding on the Myer Notes. On 6 November 2009, \$119.4 million Notes were exchanged for Myer shares and on 4 December 2009 the remaining Notes of \$135.6 million were redeemed.

(b) Security

The loan facilities in place at 31 July 2010 are unsecured, subject to various representations, undertakings, events of default and review events, which are usual for facilities of this nature.

The Senior term debt facilities and the Myer Notes repaid during the current period were secured by fixed and floating charges over the shares and assets of certain Group companies, and real property mortgages over the Group's property assets. These securities were discharged on 4 December 2009 upon repayment of the relevant facilities.

Notes to financial statements continued

31 July 2010

19 Borrowings (continued)

(c) Fair value

The carrying amounts and fair values of borrowings at balance date are:

Group	2010		2009	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Bank loans	419,919	419,919	630,604	630,604
Myer Notes	–	–	248,401	248,401
	419,919	419,919	879,005	879,005

The fair value of existing borrowings equals their carrying amount, as the impact of discounting is not significant.

(d) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 2.

20 Non-current liabilities – Deferred tax liabilities

	Consolidated	
	2010 \$'000	2009 \$'000

The balance comprises temporary differences attributable to:

Amounts recognised in profit or loss

Property, plant, equipment and software	5,091	–
Deferred stamp duty	1,424	1,557
Brand name	1,622	1,725
Derivative financial instruments	165	1,014
Sundry items	975	662
	9,277	4,958
Set off of deferred tax liabilities pursuant to set-off provisions (note 15)	(9,277)	(4,958)
Net deferred tax liabilities	–	–

Movements:

Balance at beginning of period	4,958	6,770
Charged/(credited) to profit or loss (note 7)	4,319	955
Reallocation to deferred tax assets	–	(2,767)
Balance at end of period	9,277	4,958

21 Non-current liabilities – Provisions

	Consolidated	
	2010 \$'000	2009 \$'000
Employee benefits	4,331	5,363
Fixed lease rental increases	45,841	51,257
Unfavourable lease contracts	5,322	7,775
Other	5,000	5,000
	60,494	69,395

(b) Fixed lease rental increases

The Group is a party to a number of leases that include fixed rental increases during their term. In accordance with AASB 117 *Leases*, the total rentals over these leases are being expensed over the lease term on a straight-line basis. The above provision reflects the difference between the future committed payments under these leases and the total future expense.

(c) Unfavourable lease contracts

At the date the Myer business was acquired, the business was party to a number of unfavourable lease contracts compared to market rentals payable at the time. As part of the acquisition accounting, a provision was raised for the difference between the rentals committed under these leases and the market value of these leases.

(d) Movements in provisions

Movements in each class of provision during the financial period, other than employee benefits, are set out below.

	Fixed lease rental increases \$'000	Unfavourable lease contracts \$'000	Other \$'000	Total \$'000
2010 consolidated				
Carrying amount at start of period	51,257	7,775	5,000	64,032
Additional amounts recognised	856	–	–	856
Amounts utilised during the period	(6,272)	(2,453)	–	(8,725)
Carrying amount at end of period	45,841	5,322	5,000	56,163
2009 consolidated				
Carrying amount at start of period	57,289	10,761	5,000	73,050
Additional amounts recognised	–	–	–	–
Amounts utilised during the period	(6,032)	(2,986)	–	(9,018)
Carrying amount at end of period	51,257	7,775	5,000	64,032

22 Non-current liabilities – Retirement benefit obligations**(a) Superannuation plan**

The Group currently contributes to a number of superannuation funds, most of which are defined contribution funds, with one defined benefit fund. The defined benefit fund is currently administered through Mercer Human Resource consulting within a Mercer Master Trust arrangement. Myer employees who were members of the Coles Myer Defined Benefit Fund were transferred to the Myer Fund effective 2 June 2006 as a consequence of the acquisition of the Myer business. On transfer of Myer employees to the new fund, assets representing the employees' benefit entitlements at the date of transfer were transferred with the employees' entitlements.

The following sets out details in respect of the defined benefit section only. The expense recognised in relation to the defined contribution plans is disclosed in note 6.

Notes to financial statements continued

31 July 2010

22 Non-current liabilities – Retirement benefit obligations (continued)

(b) Balance sheet amounts

The amounts recognised in the balance sheet (within other non-current liabilities) are determined as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
Present value of the defined benefit obligation	6,468	8,495
Fair value of defined benefit plan assets	(5,613)	(5,791)
	855	2,704
Unrecognised past service costs	–	–
Net liability in the balance sheet	855	2,704

The Group has no legal obligation to settle this liability with an immediate contribution or additional one-off contributions.

(c) Categories of plan assets

The main categories of plan assets are as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
Cash	337	695
Equity instruments	3,985	3,996
Fixed Income	730	463
Property	561	637
	5,613	5,791

(d) Reconciliations

	Consolidated	
	2010 \$'000	2009 \$'000

Reconciliation of the defined benefit obligation which is partly funded

Opening balance	8,495	39,251
Current service cost	235	931
Interest cost	348	2,054
Contributions by plan participants	66	380
Actuarial (gains) and losses	285	(3,028)
Benefits paid	(2,572)	(3,488)
Taxes and premiums paid	(389)	(273)
Transfers in/(out)	–	(707)
Curtailments	–	(731)
Settlements	–	(25,894)
Balance at end of the period	6,468	8,495

Reconciliation of the fair value of plan assets:

Opening balance	5,791	38,525
Expected return on plan assets	346	2,407
Actuarial gains and (losses)	158	(6,068)
Contributions by Group companies	2,213	909
Contributions by plan participants	66	380
Benefits paid	(2,572)	(3,488)
Taxes and premiums paid	(389)	(273)
Transfers in/(out)	–	(707)
Settlements	–	(25,894)
Balance at end of the period	5,613	5,791

(e) Amounts recognised in profit or loss

The amounts recognised in profit or loss are as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
Current service cost	235	931
Interest cost	348	2,054
Expected return on plan assets	(346)	(2,407)
Effect of curtailments (gain)/loss	–	(731)
Total included in employee benefits expense	237	(153)
Actual return on plan assets	504	(3,661)

(f) Amounts recognised in other comprehensive income

The amounts recognised in other comprehensive income were as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
Actuarial (loss)/gain for the period	(127)	(3,040)
Cumulative actuarial (losses)/gains recognised in other comprehensive income	(5,435)	(5,308)

(g) Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
Discount rate	4.20%	4.80%
Expected return on plan assets	7.00%	6.80%
Future salary increases	3.50%	4.00%

The expected rate of return on plan assets has been based on historical and future expectations of returns for each of the major categories of asset classes as well as the expected and actual allocation of plan assets to these major categories. This resulted in the selection of a 7.0% rate of return net of taxes and fees.

(h) Employer contributions

Employer contributions to the defined benefit section of the plan are based on recommendations by the plan's actuary. Actuarial assessments are made at no more than three-yearly intervals. However, due to the state of financial markets during the period, the Company commissioned the actuary to provide more regular updates on the funds financial position.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding benefits known as the aggregate funding method. This funding method seeks to have benefits funded by means of a total contribution which is expected to be a constant percentage of members' salaries over their working lifetimes.

Total employer contributions expected to be paid by Group companies for the period ending 30 July 2011 are \$171 thousand.

The economic assumptions used by the actuary to make the funding recommendations were a long-term investment earning rate of 7.0% pa (net of fees and taxes), a salary increase rate of 3.5% pa and a discount rate of 4.2%.

Notes to financial statements continued

31 July 2010

22 Non-current liabilities – Retirement benefit obligations (continued)

(i) Historic summary

	Consolidated	
	2010 \$'000	2009 \$'000
Defined benefit plan obligation	(6,468)	(8,495)
Plan assets	5,613	5,791
Deficit	(855)	(2,704)
Experience adjustments (gain)/loss – plan assets	(158)	6,068
Experience adjustments (gain) – plan liabilities	256	(3,208)

23 Contributed equity

	2010 Number of shares	2009 Number of shares	2010 \$'000	2009 \$'000
Opening balance	457,769,439	454,190,664	84,946	84,872
Ordinary shares issued under Initial Public Offering	76,387,581	–	313,189	–
Ordinary shares issued under Myer Notes exchange	29,852,728	–	122,396	–
Ordinary shares issued under employee gift offer	1,449,888	–	5,945	–
Options exercised at \$0.01 per ordinary share during the period	5,211,113	3,548,220	52	35
Options exercised at \$1.27 per ordinary share during the period	513,333	30,555	652	39
Shares issued to Myer Equity Plans Trust at market value during the period	10,333,802	–	36,750	–
	581,517,884	457,769,439	563,930	84,946
Less: Transaction costs arising on share issue net of tax	–	–	(9,968)	–
	581,517,884	457,769,439	553,962	84,946

Treasury shares

Opening balance	–	–	–	–
Shares issued to Myer Equity Plans Trust	(10,333,802)	–	(36,750)	–
Shares allocated on exercise of options at \$0.01 during the period	9,551,905	–	96	–
Shares allocated on exercise of options at \$1.27 during the period	506,881	–	643	–
Shares acquired by Employee Share Scheme Trust	(262,000)	–	(823)	–
Closing balance of Treasury shares	(537,016)	–	(36,834)	–
Closing balance	580,980,868	457,769,439	517,128	84,946

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) Treasury shares

Treasury shares are shares in Myer Holdings Limited that are held by the Myer Equity Plans Trust for the purposes of issuing shares under the Myer Equity Incentive Plan (see note 37 for further information).

(c) Employee share and option schemes

Information relating to the employee share and option schemes, including details of shares issued under the scheme, is set out in note 37.

(d) Share issue and exercise of options

At various dates during the 2010 reporting period, 5,211,113 share options that had vested were converted to ordinary shares at an exercise price of \$0.01 per share. On 29 October 2009, the Company issued a further 513,333 new ordinary shares at \$1.27 per share.

On 2 November 2009, the company was listed on the Australian Securities Exchange (ASX). At this time the company held an Initial Public Offer of shares in the Company and 76,387,581 shares were issued. Furthermore Myer Noteholders were given the opportunity to exchange Myer Notes at a 2.5 % discount and as a result a further 29,852,728 shares were issued under the Myer Notes exchange. During the IPO process eligible employees were offered the opportunity to acquire, at no cost, shares up to the value of \$725. Under the gift scheme 1,449,888 shares were issued.

(e) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistently with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The gearing ratios at 31 July 2010 and 25 July 2009 were as follows:

	Notes	Consolidated 2010 \$'000	2009 \$'000
Total borrowings	19	419,919	879,005
Less: cash and cash equivalents	8	(105,834)	(184,773)
Net debt		314,085	694,232
Total equity		857,440	380,122
Total capital		1,171,525	1,074,354
Gearing ratio		27%	65%

The decrease in the gearing ratio during 2010 was driven primarily from the increase in equity as a result of listing the Company on the Australian Securities Exchange (ASX) and the Initial Public Offer of shares in the Company. The Company's policy in relation to dividend payments to shareholders is to maintain a payment ratio of between 70 – 80% of net profit after tax.

24 Reserves and retained profits**(a) Retained profits**

Movements in retained profits were as follows:

	Consolidated 2010 \$'000	2009 \$'000
Balance at beginning of period	314,446	207,825
Items of other comprehensive income recognised directly in retained earnings:		
Actuarial (losses)/gains on retirement benefit obligation, net of tax (note 22 (f))	(127)	(2,128)
Dividends	(61,031)	–
Net profit/(loss) for the period	67,182	108,749
Balance at end of period	320,470	314,446

Notes to financial statements continued

31 July 2010

24 Reserves and retained profits (continued)

(b) Reserves

	Consolidated	
	2010	2009
	\$'000	\$'000
Share-based payments (i)	19,754	6,890
Cash flow hedges (ii)	88	(26,160)
	19,842	(19,270)
Movements:		
Share-based payments		
Balance at beginning of period	6,890	4,390
Share-based payments expense recognised	5,749	2,500
Income tax (notes 7, 15 and 20)	7,115	–
Balance at end of period	19,754	6,890
Cash flow hedges		
Balance at beginning of period	(26,160)	–
Revaluation – gross	9,753	(42,690)
Deferred tax (notes 15 and 20)	(2,925)	12,807
Transfer to net profit – gross	352	2,985
Deferred tax (notes 15 and 20)	(106)	(895)
Transfer to net profit IPO related – gross	29,019	–
Deferred tax (notes 15 and 20)	(8,706)	–
Transfer to inventory and other assets – gross	(1,627)	2,333
Deferred tax (notes 15 and 20)	488	(700)
Balance at end of period	88	(26,160)

(i) Share-based payments

The Share-based payments reserve is used to recognise the fair value of options issued to employees but not exercised.

(ii) Cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(m). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

25 Dividends

	Consolidated 2010 \$'000	2009 \$'000
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(a) Ordinary shares

Interim dividend for the period ended 31 July 2010 of 10.5 cents (2009: nil) per fully paid share paid 6 May 2010 (2009: nil)

Fully franked based on tax paid at 30%	61,031	–
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(b) Dividends not recognised at the end of the reporting period

In addition to the above dividends, since period end the Directors have recommended the payment of a final dividend of 11.5 cents per fully paid ordinary share, (2009: nil) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 4 November 2010, but not recognised as a liability at period end, is:

	66,813	–
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(c) Franked dividends

The franked portions of the final dividends recommended after 31 July 2010 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the period ending 30 July 2011.

	Consolidated 2010 \$'000	2009 \$'000
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Franking credits available for subsequent financial periods based on a tax rate of 30% (2009: 30%)	73,500	67,612
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The above amounts represent the balance of the franking account as at the reporting date, adjusted for:

- (a) franking credits that will arise from the payment of the amount of the provision for income tax
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

The impact on the franking account of the dividend recommended by the Directors since the end of the reporting period, but not recognised as a liability at the reporting date, will be a reduction in the franking account of \$29 million (2009: nil).

26 Key Management Personnel disclosures

(a) Key Management Personnel compensation

Key Management Personnel compensation for the period ended 31 July 2010 is set out below. The Key Management Personnel of the Group are persons having the authority and responsibility for planning, directing and controlling the Company's activities directly or indirectly, including the Directors of Myer Holdings Limited.

	Consolidated 2010 \$	2009 \$
Short-term employee benefits	8,380,113	7,783,471
Post-employment benefits	266,191	308,303
Long-term benefits	1,021,362	79,111
Termination and other benefits	3,212,616	–
Share-based payments	3,701,454	999,635
	16,581,736	9,170,520
Other personnel no longer Key Management Personnel ¹	–	4,632,762
	16,581,736	13,803,282

¹ Effective for the current financial period the Company has reassessed its KMP and as a result any personnel no longer meeting the definition of KMP have been included here.

Detailed remuneration disclosures are provided in the Remuneration Report on pages 15 to 26.

Notes to financial statements continued

31 July 2010

26 Key management personnel disclosures (continued)

(b) Equity instrument disclosures relating to Key Management Personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report on pages 15–26.

(ii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial period by each Director of Myer Holdings Limited and other Key Management Personnel of the Group, including their personally related parties, are set out below.

2010 Name	Balance at start of the period	Granted as compensation	Exercised	Other changes	Balance at end of the period	Vested and exercisable	Unvested
Directors of Myer Holdings Limited							
Howard McDonald	400,000	–	(373,333)	–	26,667	–	26,667
Bernard Brookes	5,600,000	7,380,394	(5,120,000)	–	7,860,394	–	7,860,394
Tom Flood	150,000	–	(140,000)	–	10,000	–	10,000
William Wavish	5,600,000	–	–	(5,600,000)	–	–	–
Rupert Myer AM	–	–	–	–	–	–	–
Anne Brennan	–	–	–	–	–	–	–
Peter Hay	–	–	–	–	–	–	–
Other Key Management Personnel of the Group							
Mark Ashby	1,000,000	420,168	–	–	1,420,168	333,333	1,086,835
Penny Winn	900,000	420,168	–	–	1,320,168	166,667	1,153,501
Greg Travers	684,446	420,168	(625,778)	–	478,836	–	478,836
Nick Abboud	658,444	420,168	(62,576)	–	1,016,036	30,000	986,036

All vested options are exercisable at the end of the period.

William Wavish has been included as a director for the start of 2010 but due to his resignation as a Director on 4 August 2009 his option holdings have been removed in 'Other changes'.

2009 Name	Balance at start of the period	Granted as compensation	Exercised	Other changes	Balance at end of the period	Vested and exercisable	Unvested
Directors of Myer Holdings Limited							
Howard McDonald	400,000	–	–	–	400,000	111,111	288,889
Bernard Brookes	6,800,000	–	(1,200,000)	–	5,600,000	–	5,600,000
Tom Flood	150,000	–	–	–	150,000	41,667	108,333
William Wavish	6,800,000	–	(1,200,000)	–	5,600,000	–	5,600,000
Rupert Myer AM	–	–	–	–	–	–	–
Other Key Management Personnel of the Group							
Mark Ashby	1,000,000	–	–	–	1,000,000	–	1,000,000
Penny Winn	500,000	400,000	–	–	900,000	–	900,000
Greg Travers	831,112	–	(146,666)	–	684,446	–	684,446
Nick Abboud	200,000	500,000	(41,556)	–	658,444	–	658,444
Other personnel no longer Key Management Personnel	2,984,667	400,000	(752,889)	–	2,631,778	282,109	2,349,669

(iii) Share holdings

The number of shares in the Company held during the financial period by each Director of Myer Holdings Limited and other Key Management Personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2010		Balance at the start of the period	Received during the period on the exercise of options	Other changes during the period	Balance at the end of the period
Name					
Directors of Myer Holdings Limited					
Ordinary shares					
Howard McDonald		1,650,000	373,333	24,390	2,047,723
Bernard Brookes		6,650,000	5,120,000	(703,370)	11,066,630
Tom Flood		250,000	140,000	–	390,000
William Wavish		6,650,000	–	(6,650,000)	–
Rupert Myer AM		–	–	725,710	725,710
Anne Brennan		–	–	53,658	53,658
Peter Hay		–	–	12,195	12,195
Other Key Management Personnel of the Group					
Ordinary shares					
Mark Ashby		220,000	–	(34,743)	185,257
Penny Winn		200,000	–	–	200,000
Greg Travers		1,615,554	625,778	(224,192)	2,017,140
Nick Abboud		391,556	62,576	(166,000)	288,132

William Wavish has been included as a director for the start of 2010 but due to his resignation as a Director on 4 August 2009 his share holdings have been removed in 'Other changes during the period'.

2009		Balance at the start of the period	Received during the period on the exercise of options	Other changes during the period	Balance at the end of the period
Name					
Directors of Myer Holdings Limited					
Ordinary shares					
Howard McDonald		1,500,000	–	150,000	1,650,000
Bernard Brookes		4,950,000	1,200,000	500,000	6,650,000
Tom Flood		100,000	–	150,000	250,000
William Wavish		4,950,000	1,200,000	500,000	6,650,000
Rupert Myer AM		–	–	–	–
John Lovering		1,666,667	–	(1,666,667)	–
Other Key Management Personnel of the Group					
Ordinary shares					
Mark Ashby		150,000	–	70,000	220,000
Penny Winn		200,000	–	–	200,000
Greg Travers		1,268,888	146,666	200,000	1,615,554
Nick Abboud		150,000	41,556	200,000	391,556
Other personnel no longer Key Management Personnel		3,683,999	752,889	200,000	4,636,888

Notes to financial statements *continued*

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26 Key Management Personnel disclosures (continued)

(c) Loans to Key Management Personnel

Details of loans made to Directors of Myer Holdings Limited and other Key Management Personnel of the Group, including their personally related parties, are set out below.

(i) Aggregates for Key Management Personnel

Group	Balance at the start of the period \$	Interest paid and payable for the period \$	Interest not charged \$	Balance at the end of the period \$	Number in group at the end of the period
2010	46,197	406	–	–	1
2009	244,500	8,087	–	46,197	1

(ii) Individuals with loans above \$100,000 during the financial period

2009 Name	Balance at the start of the period \$	Interest paid and payable for the period \$	Interest not charged \$	Balance at the end of the period \$	Highest indebtedness during the period
Nick Abboud	244,500	8,087	–	46,197	244,500

In 2010 there were no loans to individuals that exceeded \$100,000 at any time.

Certain Key Management Personnel obtained loans from the company and Myer Pty Ltd for the purpose of acquiring shares in the Company. These loans were made on terms equivalent to those that would prevail in arm's-length transactions.

No write-down or allowances for doubtful receivables have been recognised in relation to any loans made to Key Management Personnel.

(d) Other transactions with Key Management Personnel

There were no transactions with Key Management Personnel or entities related to them, other than compensation.

27 Remuneration of auditors

During the period the following fees were paid or payable for services provided by the auditor of the Group, and its related practices:

	Consolidated 2010 53 weeks \$	2009 52 weeks \$
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(a) Assurance services

Audit services

PricewaterhouseCoopers Australian firm		
Audit and review of financial statements and other audit work under the <i>Corporations Act 2001</i>	285,800	250,000
Total remuneration for audit services	285,800	250,000

Other assurance services

PricewaterhouseCoopers Australian firm		
Audit of rent certificates	43,500	30,065
Other	105,570	97,500
Total remuneration for other assurance services	149,070	127,565
Total remuneration for assurance services	434,870	377,565

(b) Taxation services

PricewaterhouseCoopers Australian firm		
Tax consulting and tax advice	248,516	321,167
Total remuneration for taxation services	248,516	321,167

(c) Initial Public Offering services

PricewaterhouseCoopers Australian firm		
Initial Public Offering related services	1,966,156	–
Total remuneration for IPO services	1,966,156	–

28 Contingencies

Contingent liabilities

The Group had contingent liabilities at 31 July 2010 in respect of:

Guarantees

The Group has issued bank guarantees amounting to \$26.4 million, of which \$23.8 million represents guarantees supporting workers' compensation self-insurance licences in various jurisdictions.

While the amount and timing of any contingencies are uncertain, no material losses are anticipated in respect of the above contingent liabilities.

29 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	Consolidated	
	2010	2009
	\$'000	\$'000
Property, plant, equipment and software		
Payable:		
Within one year	28,223	27,541
Later than one year but not later than five years	–	–
Later than five years	–	–
	28,223	27,541

(b) Lease commitments: Company as lessee

Operating leases

The Group leases the majority of its stores and warehouses under non-cancellable operating leases expiring within 1 to 26 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	Consolidated	
	2010	2009
	\$'000	\$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	190,054	179,174
Later than one year but not later than five years	675,034	665,466
Later than five years	1,505,950	1,402,806
	2,371,038	2,247,446

Not included in the above commitments are contingent rental payments that may arise in the event that sales made by certain leased stores exceed a pre-determined amount. The contingent rentals payable as percentage of sales revenue and the relevant thresholds vary from lease to lease.

30 Related party transactions

(a) Parent entities

The parent entity within the group is Myer Holdings Limited, a listed public company, incorporated in Australia.

(b) Subsidiaries

Interests in subsidiaries are set out in note 31.

(c) Key Management Personnel

Disclosures relating to Key Management Personnel are set out in note 26.

(d) Transactions with other related parties

During the period the Group incurred a management fee of \$63,000 with Newbridge Capital LLC, an entity associated with the Group's previous ultimate parent entity for services provided to the Group.

Notes to financial statements continued

31 July 2010

31 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Notes	Country of incorporation	Class of shares	Equity holdings ⁴ 2010 %	Equity holdings ⁴ 2009 %
NB Elizabeth Pty Ltd	1, 3	Australia	Ordinary	100	100
NB Russell Pty Ltd	2, 3	Australia	Ordinary	100	100
NB Lonsdale Pty Ltd	2, 3	Australia	Ordinary	100	100
NB Collins Pty Ltd	1, 3	Australia	Ordinary	100	100
Warehouse Solutions Pty Ltd	2, 3	Australia	Ordinary	100	100
Myer Group Pty Ltd	1, 3	Australia	Ordinary	100	100
Myer Pty Ltd	1, 3	Australia	Ordinary	100	100
Myer Group Finance Limited	1, 3	Australia	Ordinary	100	100
The Myer Emporium Pty Ltd	1, 3	Australia	Ordinary	100	100
ACT Employment Services Pty Ltd	2	Australia	Ordinary	100	100
Myer Employee Share Plan Pty Ltd	2	Australia	Ordinary	100	100
Myer Travel Pty Ltd	2	Australia	Ordinary	100	100

Notes:

- 1 Each of these entities has been granted relief from the necessity to prepare financial statements in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission.
- 2 Each of these entities is classified as small proprietary and therefore relieved from the requirement to prepare and lodge financial reports with ASIC.
- 3 Each of these entities is party to a deed of cross guarantee, refer note 32.
- 4 The proportion of ownership interest is equal to the proportion of voting power held.

32 Deed of cross guarantee

Myer Holdings Limited, NB Elizabeth Pty Ltd, NB Collins Pty Ltd, NB Russell Pty Ltd, Myer Group Pty Ltd, NB Lonsdale Pty Ltd, Warehouse Solutions Pty Ltd, Myer Group Finance Limited, Myer Pty Ltd and The Myer Emporium Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

Each of the members of the extended 'closed group' are considered to be solvent at 31 July 2010.

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

The above companies represent a 'closed group' for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Myer Holdings Limited, they also represent the 'extended closed group'.

Although certain Group entities are not members of the closed group, these entities do not represent a material difference between the income statement, balance sheet, and cash flows of the consolidated group and the closed group. As a result, no additional disclosure has been made in relation to the closed group.

33 Events occurring after the reporting period

Subsequent to 31 July 2010, the Directors have determined to pay a final dividend of 11.5 cents per share, franked to 100% at the 30% corporate income tax rate, payable on 4 November 2010. The record date for this dividend is 30 September 2010.

The financial effect of the final ordinary dividend for 2010 has not been recognised in the annual financial statements for the period ended 31 July 2010 and will be recognised in subsequent financial statements.

34 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated 2010 53 weeks \$'000	2009 52 weeks \$'000
Profit for the period	67,182	108,749
Depreciation and amortisation including lease inducements	62,705	64,501
Interest income	(2,725)	(5,449)
Fair value adjustment to derivatives	79	(20)
Interest expense – unwind of borrowing costs	1,694	6,771
IPO and related expenses	134,880	–
Share-based payments expense	5,750	2,500
Defined benefits superannuation	(67)	(1,062)
Change in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	6,703	(825)
Decrease/(increase) in inventories	1,131	(8,083)
Decrease/(increase) in deferred tax asset	20,501	16,946
Increase/(decrease) in trade and other payables	(38,943)	25,588
(Decrease)/increase in current tax payable	2,493	(28,668)
(Decrease)/increase in provisions	(18,310)	(12,862)
(Decrease)/increase in other liabilities	(2,022)	(1,426)
Net cash (outflow)/inflow from operating activities	241,051	166,660

35 Parent entity financial information**(a) Summary financial information**

The individual financial statements for the parent entity show the following aggregate amounts:

	2010 \$'000	2009 \$'000
Balance sheet		
Current assets	188,411	57,752
Total assets	1,054,934	114,718
Current liabilities	34,588	19,655
Total liabilities	454,507	19,655
Shareholders' equity		
Issued capital	517,128	84,946
Reserves		
Cash flow hedges	384	–
Share-based payments	12,640	6,890
Retained earnings	70,275	3,227
Profit for the period	128,078	503
Total comprehensive income	128,462	503

Notes to financial statements continued

31 July 2010

35 Parent entity financial information (continued)

(b) Guarantees entered into by the parent entity

	2010 \$'000	2009 \$'000
Carrying amount included in current liabilities	–	–
	–	–

The parent entity is the borrowing entity under the Group's financing facilities. Under these facilities, the parent entity is party to a cross guarantee with various other Group entities, who guarantee the repayment of the facilities in the event that the parent entity is in default.

The parent entity is also party to a deed of cross guarantee entered into on 10 May 2010. The details of the deed of cross guarantee are set out in note 32. At balance date no liability has been recognised in relation to these guarantees on the basis that the potential exposure is not considered material.

The parent entity has issued bank guarantees amounting to \$26.4 million, of which \$23.8 million represents guarantees supporting workers' compensation self-insurance licences in various jurisdictions.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 July 2010 or 25 July 2009. For information about guarantees given by the parent entity, please see above.

(d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity did not have any contractual commitments for the acquisition of property, plant or equipment as at 31 July 2010 or 25 July 2009.

36 Earnings per share

	Consolidated	
	2010 \$'000	2009 \$'000
(a) Basic earnings per share		
Total basic earnings per share attributable to the ordinary equity holders of the Company	12.3	23.8
(b) Diluted earnings per share		
Total diluted earnings per share attributable to the ordinary equity holders of the Company	12.1	22.9
(c) Reconciliations of earnings used in calculating earnings per share		
Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	67,182	108,749
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	67,182	108,749

(d) Weighted average number of shares used as the denominator

	2010 Number	Consolidated 2009 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	548,286,696	457,313,012
Adjustments for calculation of diluted earnings per share:		
Options	7,644,061	17,936,113
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	555,930,757	475,249,125

(e) Information concerning the classification of securities**(i) Options**

Options granted to employees under the Myer Equity Incentive Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 37.

The 10,825,773 options granted on 6 November are not included in the calculation of diluted earnings per share because they are antidilutive for the period ended 31 July 2010. These options could potentially dilute basic earnings per share in the future.

37 Share-based payments**(a) Employee option plan**

The Myer Equity Incentive Plan was established to help ensure retention of senior management and key staff and to provide incentives for the delivery of both short- and long-term shareholder returns. Under the plan, options have been issued in Myer Holdings Limited, the Group's ultimate Australian parent, under six tranches since November 2006 as follows:

Tranche 1	Issued November – December 2006. Options were granted with time-based and performance-based components. Two-thirds of the options granted were to vest evenly over a five-year period provided the participant remained with the Group, with the other third vesting upon the achievement of certain EBITDA targets. Under the terms of the offer, as a result of the IPO, 80% of unvested options vested immediately on 6 November 2009, with the remainder vesting on the second anniversary of IPO with the exception of the CEO, whose remaining options under the tranche vest on the first anniversary of the IPO.
Tranche 2	Issued August 2007. Options were granted with time based and performance based components. Two-thirds of the options granted were to vest evenly over a four-year period provided the participant remained with the Group, with the other third vesting upon the achievement of certain EBITDA targets. Under the terms of the offer, as a result of the IPO, 80% of unvested options vested immediately on 6 November 2009, with the remainder vesting on the second anniversary of IPO.
Tranche 3	Issued January – July 2008. Options vest on a time basis evenly over the three-year period from 31 July 2010 to 31 July 2012.
Tranche 4	Issued 17 December 2008. Options vest on a time basis over the three-year period from 31 July 2011 to 31 July 2013.
Tranche 5	Issued 30 June 2009. Options vest on a time basis over the three-year period from 31 July 2012 to 31 July 2014.
Tranche 6 – EPS Mgt Plan	Issued 6 November 2009. Options vest on an EPS performance basis over a three-year period from November 2009 to 31 July 2012, subject to performance hurdles being met.
Tranche 6 – EPS CEO Plan	Issued 6 November 2009. Options vest on an EPS performance basis over a four-year period from November 2009 to 31 July 2013, subject to performance hurdles being met.
Tranche 6 – Share price CEO Plan	Issued 6 November 2009. Options vest on a share price performance basis over the four-year period from November 2009 to 31 July 2013, the timing of which is subject to performance hurdles being met.

Notes to financial statements *continued*

31 July 2010

37 Share-based payments (continued)

(a) Employee Option Plan (continued)

Options are granted under the plan for no consideration, and carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share in the company. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Set out below is a summary of options granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at start of the period Number	Granted during the period Number	Exercised during the period Number	Lapsed during the period Number	Balance at end of the period Number	Vested and exercisable at end of the period Number
Consolidated – 2010								
Tranche 1: Nov – Dec 2006	15 Oct 2011	\$0.01	16,056,005	–	(14,703,018)	(65,512)	1,287,475	–
Tranche 2: Aug – Nov 2007	15 Oct 2011	\$1.27	1,476,110	–	(1,080,214)	(30,555)	365,341	275,003
Tranche 3: Jan – May 2008	21 Dec 2012	\$3.00	9,939,013	–	–	(910,800)	9,028,213	3,009,404
Tranche 4: 17 Dec 2008	24 Oct 2013	\$2.14	4,880,863	–	–	(578,000)	4,302,863	–
Tranche 5: 30 Jun 2009	24 Oct 2014	\$2.34	5,055,900	–	–	(353,000)	4,702,900	–
Tranche 6: EPS Mgt Plan 06 Nov 2009	19 Dec 2012	\$4.10		3,445,379	–	–	3,445,379	–
Tranche 6: EPS CEO Plan 06 Nov 2009	19 Dec 2013	\$4.10	–	5,152,671	–	–	5,152,671	–
Tranche 6: Share Price CEO Plan 06 Nov 2009	19 Dec 2013	\$5.74	–	2,227,723	–	–	2,227,723	–
			37,407,891	10,825,773	(15,783,232)	(1,937,867)	30,512,565	3,284,407

Consolidated – 2009

Tranche 1: Nov – Dec 2006	15 Oct 2011	\$0.01	20,919,337	–	(3,548,220)	(1,315,112)	16,056,005	799,114
Tranche 2: Aug – Nov 2007	15 Oct 2011	\$1.27	1,745,000	–	(30,555)	(238,335)	1,476,110	454,167
Tranche 3: Jan – May 2008	21 Dec 2012	\$3.00	11,541,313	–	–	(1,602,300)	9,939,013	–
Tranche 4: 17 Dec 2008	24 Oct 2013	\$2.14	–	5,113,863	–	(233,000)	4,880,863	–
Tranche 5: 30 Jun 2009	24 Oct 2014	\$2.34	–	5,075,900	–	(20,000)	5,055,900	–
			34,205,650	10,189,763	(3,578,775)	(3,408,747)	37,407,891	1,253,281

No options expired during the periods covered by the above table. As a result of the dividend and capital return totalling \$1.25 per share paid on 24 August 2007, the exercise price of options outstanding at that date was reduced by \$1.25 to ensure that option holders would not be disadvantaged by the capital return.

The weighted average share price of the Company since listing on the ASX in November 2009 was \$3.47. Prior to this date no share price information is available, other than market valuations performed at the time of option grants, as disclosed in this note and the corresponding note in 2009.

Fair value of options granted

The assessed fair value at grant date of options granted during the period is noted below. Fair value varies depending on the period to vesting date. The fair values at grant dates were independently determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the fair value of shares in the Company at grant date and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair values and model inputs for options granted during the period included:

	Tranche 6 – EPS Mgt Plan	Tranche 6 – EPS CEO Plan	Tranche 6 – Share price CEO Plan
a) Fair value of options granted	\$1.19	\$1.31	\$1.01
b) Exercise price at grant date	\$4.10	\$4.10	\$5.74
c) Grant date	6-Nov-09	6-Nov-09	6-Nov-09
d) Expiry date	Dec-12	Dec-13	Dec-13
e) Share price at grant date	\$3.77	\$3.77	\$3.77
f) Expected price volatility of the Group's shares	58%	58%	58%
g) Expected dividend yield	5%	5%	5%
h) Risk-free interest rate	4.94%	5.14%	5.14%

As shares in the Company were not listed, the fair value per share at grant date for Tranches 1 – 5 was based on an externally prepared share valuation prepared as at the grant date. The fair value per share at grant date for Tranche 6 was based on market prices as at the grant date.

The expected price volatility is based on estimates of price volatility of comparable listed companies. Expected dividend yield is based on expectations of dividend yield of the Company during the term of the options based on expected returns and dividend policy this period, combined with analysis of dividend yields of comparable listed companies.

Where options are issued to employees of subsidiaries within the Group, the subsidiaries compensate the Company for the amount recognised as expense in relation to these options.

(b) Employee share acquisition plan – employee gift offer

The Employee Share Acquisition Plan (ESAP) is designed as a broadly based plan to permit employees of the Myer Group to participate, at the invitation of the Board, in the acquisition of shares on terms and conditions determined by the Board. The initial offer under the ESAP, being the employee gift offer, issued shares on 6 November 2009 to eligible employees for no cash consideration. Eligible employees are permanent full-time and permanent part-time employees of the Myer Group who do not already participate in the Myer Employee Incentive Program (and are not eligible to participate in the MEIP) and were employed at 5.00pm on 2 October 2009 (and remained employed at 5 November 2009).

Under the scheme eligible employees who accepted the offer were granted 176 shares at a value of \$721.60, at no cost. Shares issued under the ESAP are subject to a disposal restriction such that the participant cannot deal (i.e. sell or transfer) in the shares for a minimum period of three years (or earlier if their employment ceases).

	Consolidated 2010	2009
Number of shares issued under the plan to participating employees on 6 November 2009	1,449,888	–

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated 2010 \$'000	2009 \$'000
Options issued under employee option plan	5,749	2,500
Shares issued under Employee Share Acquisition Plan – employee gift offer	5,945	–
	11,694	2,500

The expenses arising from the shares issued under the Employee Share Acquisition Plan have been recognised within IPO costs.

Directors' declaration

27 September 2010

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 27 to 75 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 July 2010 and of their performance for the financial period ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 32 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 32.

Note 1(a) confirms that the financial statements also comply with International financial reporting standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.



Howard McDonald
Chairman

Melbourne
27 September 2010