

CHIEF EXECUTIVE OFFICER'S REPORT

Mark McInnes
Chief Executive Officer



Dear Shareholders,

Before commencing my Report I would like to take the opportunity to thank you for your support over the past 12 months and to express the honour I have felt to be the Chief Executive Officer of an iconic brand such as David Jones – a business which has an enviable heritage and tradition of service and excellence within Australia.

TRADING CONDITIONS AND COMPARATIVE PEER PERFORMANCE

During the course of the 2005 financial year (FY05) I have had the privilege and responsibility of leading our Company through a very challenging retail environment. FY05 is the second full financial year that we have reported since the 2003 Strategic Review and it has been a very testing, yet rewarding 12 months.

At the time of the announcement of our Company's first half FY05 results (1H05) in March this year, I stated that since the unveiling of our Strategic Review in June 2003, our Company had enjoyed favourable consumer spending conditions. I maintained at that time that the true test of our Company's Business Model would be our ability to continue to deliver Profit after Tax (PAT) and dividend growth in times of a slowdown in consumer spending and challenging retail market conditions.

Throughout the second half of FY05 we experienced exactly this environment. The slowdown in consumer spending over the past six to nine months has been well documented and extensively reported.

I am pleased therefore to report that our FY05 Profit result was a record result for our Company – the

strongest full year result that our Company has reported since listing in 1995. Our Company delivered **NPAT of \$77.9 million in FY05**, representing **growth of 19.2% on FY04** and an **increase of 82.0% in NPAT since FY03** (\$42.7 mil in FY03 (pre significant items)).

In comparison to other listed Australian retailers and our peers, this has been a remarkable performance. The Australian Financial Review on 1 October 2005 reported that David Jones was "... the quarter's best performing consumer discretionary stock, gaining 32.1% to close at \$2.55 on 30 September 2005 ...".

A good indicator of our Company's performance can be seen in the graph set out above right on the following page showing the comparative returns of David Jones versus the S&P/ASX 200 Index during the period from 5 September 2003 until 4 October 2005.

Our Company's strong performance over the past 12 months can be attributed to our Business Model, which has enabled us to manage the downturn in consumer spending by focusing on Financial Disciplines such as our Cost Efficiencies program, tight inventory management, rigorous management of our Capital Expenditure and the generation of continuing strong returns from our Credit Card business.

FY05 FINANCIAL PERFORMANCE

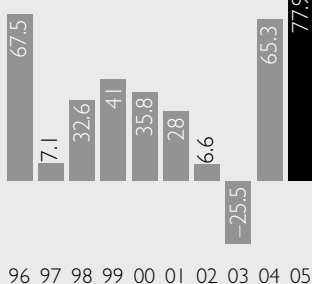
As mentioned above, our Company reported Profit after Tax of \$77.9 million in FY05.

Sales Revenue for the year grew by 3.3% on a like for like basis, from \$1.741 billion in FY04 to \$1.799 billion in FY05.

The Company's **Earnings before Interest and Tax (EBIT)** in FY05 was \$108.8 million up 14.2% on FY04

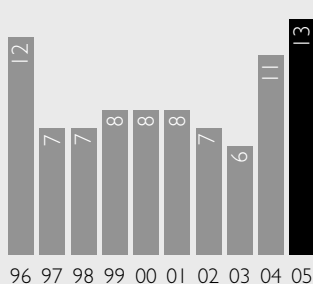
NPAT

(\$ millions)



Dividend History

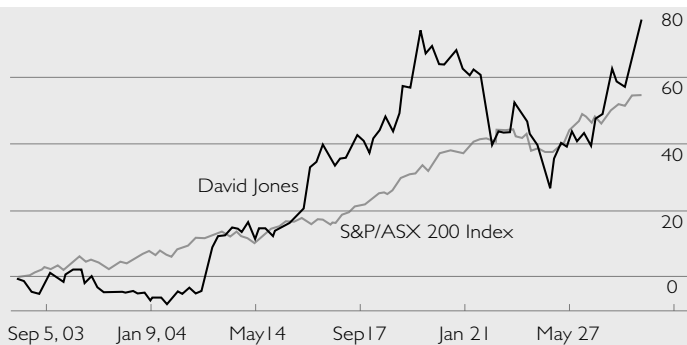
Cents per share (cps)



Comparative Returns

Common base (Aug 1, 03) = 0

Index



(\$95.3 million). The **EBIT to Sales Ratio** for FY05 was 6.05%, which represents an increase of 0.65% on FY04 (5.4%).

Both the Core Department Store business and the Credit Card business were strong contributors to the Company's FY05 Profit result. The **Core Department Store business** reported a **13.7% increase in EBIT** to \$73.9 million in FY05 from \$65 million in FY04. Core Department Store EBIT to Sales Ratio increased from 3.7% in FY04 to 4.1% in FY05.

David Jones' **Credit Card business** continued its strong performance track record, reporting **growth of 16.6% in EBIT** to \$32.2 million in FY05 from \$27.7 million in FY04.

The **Total Cost of Doing Business (CODB) percentage** for FY05 was 32.7%, an **improvement of 0.8%** on the FY04 CODB percentage (33.5%).

The Company's **Cost Efficiency program** has been in place for over 2 years. As indicated at the time of the 1H05 Results and our 4Q05 Sales announcement, the cost efficiency program has achieved its targets one year earlier than planned. This achievement has been particularly pleasing given that:

- a number of one-off costs were incurred in 2H05 in connection with the establishment and implementation of specific cost efficiency initiatives impacting FY06–08; and
- the Cost Efficiency targets were achieved without taking into account the added benefit of \$8.6 million reduction in depreciation expense in FY05 resulting from the Company's review of the useful life of all plant, equipment and software. (This reduction in depreciation expense equates to a corresponding increase to PAT of just over \$6 million in FY05.)

Gross Profit Margin for FY05 was **36.8%**, at the higher end of our Company's targeted range of 36.5–36.9%. This was a strong result given the challenging economic conditions and the slowdown in consumer spending in 2H05.

Capital Expenditure for the year was **\$38.9 million**, significantly less than the Company's stated Strategic

Review cap of \$50 million per annum and represents a productivity improvement of more than 20% in FY05 on the Company's FY04 spend.

The Company continued its track record of tight **Stock** management, with aged stock inventory levels for the Group again being maintained below 5% of total inventory. The total level of inventory was 5.5% lower than was the position at the end of FY04. This was an excellent result given the slowdown in retail spending in 2H05 and is indicative of the tight inventory management measures implemented by the Company.

Cash on hand at year-end was \$147.2 million compared to \$97.8 million in FY04, with the additional cash generated due to the strength of the business, sustainable cashflows, and the sale of the Queen St property, which generated \$27 million cash in July 2005.

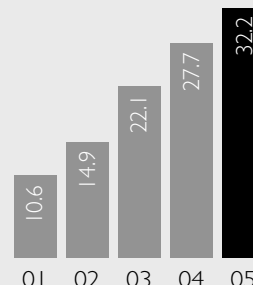
I believe that our FY05 result demonstrates that we have implemented a solid and sustainable Business Model that will enable our Company to deliver value to shareholders (in the form of Profit after Tax growth and dividend growth) on an ongoing basis over the long term, regardless of fluctuations in the economic cycle.

DIVIDENDS

As evidence of the Board's and management's confidence in our Company's strategy and Business Model going forward (in particular the business' ability to continue to generate strong, sustainable cashflows) and in keeping with the Company's Strategic Review commitment to return excess cash not required in the business to shareholders, the Board has declared a **fully franked dividend of 7 cents per ordinary share for 2H05 (vs 6 cents per share in 2H04)**.

The **total dividend** per ordinary share for FY05 is **13 cents fully franked**. This represents an **increase of 18.2% on the Company's FY04** total dividend of 11 cents per share and an **increase of 117% on the Company's FY03** total dividend of 6 cents per share.

As can be seen from the graph above the FY05 dividend is the highest dividend our Company has paid to shareholders since listing in 1995.



CORE DEPARTMENT STORE BUSINESS

I am proud to report that in FY05 our Company completed the installation of 262 individual brand concept areas across our portfolio of David Jones stores.

The roll-out of our Apple brand has been a huge success, as has the introduction of a range of diverse brands throughout all of our categories and a new range of services including:

- Jo Malone, MAC, Origins, Molton Brown London, SKII, Napoleon, L'Artisan, Penhaligons, OPI and Cargo in our Cosmetics and Fragrance department;
- Fendi, Dior, Prada and Jan Logan in our Accessories department;
- Ralph Lauren, Calvin Klein, Armani Casa, Donna Hay, Gant and DKNY Homewares;
- Saba, Jigsaw, Chloe and Polo Ralph Lauren apparel;
- Fanuli furniture; and
- new services such as NailSpa and La Prairie, Ella Bache and Jurlique Day spas in our flagship Elizabeth Street store.

Throughout the year we successfully completed Stage 1 of the Queen Street Brisbane redevelopment and are on track to open our brand new Queen Street store (with double the existing floor space) in 2006/7.

Looking forward, I am pleased to advise that we will be undertaking an extensive refurbishment of the Ground Floor Cosmetics and Accessories Hall in our Bourke Street store. This initiative is intended to replicate the unprecedented success of the refurbished Ground and Lower Ground floors of our flagship Elizabeth Street store which has set a new standard in relation to the world's best accessories and cosmetics offering within a department store.

We will also be embarking upon a complete refurbishment of the first floor of our flagship Elizabeth Street store. We expect to unveil, in 2006, a world class, contemporary fashion floor housing under one roof the broadest range of the most sought after fashion brands in individual concept areas.

The roll-out of our brand concept installations will continue over the next 12 months with an exciting

range of new and existing brand concept areas being installed throughout our portfolio of stores.

CREDIT CARD BUSINESS

Our Credit Card business has been a strong revenue generator for a number of years and continues to be so. It has a track record of being less susceptible to slowdowns in consumer spending, evidence of this being the EBIT growth delivered each year by this business in the period FY00 to FY05 inclusive.

We have capitalized on the complementary nature of the Credit Card business with our core department store business through an integrated cross-promotional marketing campaign including:

- the inaugural launch of our '4 Years Interest Free' campaign to coincide with the Athens Olympic Games in August 2004;
- the launch of our Gift Card in November 2004; and
- a new Credit Reserve facility which is based on a revolving credit line product.

Our strong Credit Card performance reflects the benefits of continued good management of costs and bad debts, a well-managed interest free program and ongoing integration of the Card into our department store marketing program.

We expect the EBIT growth of our Credit Card business to stabilize and to deliver 5–10% EBIT growth per annum in FY06, FY07 and FY08.

KEY PERFORMANCE INDICATORS SINCE IMPLEMENTATION OF THE STRATEGIC REVIEW

Since the unveiling of our Strategic Review findings and objectives in June 2003 our Company has reported its second set of full financial year results. I am pleased to report that our Company has to date achieved each of its Strategic Review stated targets. Most notably since FY03 our Company has delivered:

- a **751%** increase in Cash;
- an **82%** increase in PAT;
- an **89%** increase in EPS; and
- a **117%** increase in fully franked dividends.

The following table summarises the Company's key achievements since announcement of its Strategic Review in June 2003.

SUMMARY OF KEY PERFORMANCE INDICATORS POST STRATEGIC REVIEW

Key Item	FY03	FY04	FY05	Change from FY03 to FY05
Sales (\$m)	1711.2	1769.5	1799.1	+ 5.1%
Total EBIT before Significant Items (\$m)	65.2	95.3	108.8	+ 67%
PAT before Significant Items & before RPS Dividends (cps)	42.7	65.3	77.9	+ 82%
Basic EPS before Significant Items & after RPS dividends	9.2	14.6	17.4	+ 89%
Cash at Year End (\$m)	17.3	97.8	147.2	+751%
Capital Expenditure (\$m)	61.9	50.9	38.9	- 37%
CODB %	33.7	33.5	32.7	- 1%
Full Year Dividend per ordinary share (fully franked) (cps)	6	11	13	+117%

EMPLOYEES

As I have mentioned throughout this Report, FY05 was a very challenging year for our business and I feel it is a credit to each of our employees that they rose to the challenge in their respective roles and were instrumental in enabling our Company to deliver an outstanding financial result, in an environment where many other listed retailers floundered.

I would like to take this opportunity to express thanks to each and every one of our employees for their hard work, commitment and outstanding contribution in achieving our FY05 results and ask them to continue their good work in FY06.

SUPPLIERS

I would also like to take the opportunity to thank our suppliers for working closely with us in FY05. Our suppliers are an integral part of our business in particular our Brand Strategy and as such the management team and I are committed to nurturing and strengthening our relationship with each of our suppliers.

We look forward to continuing to work closely with our suppliers in the year ahead, in a spirit of co-operation and to achieve mutually beneficial outcomes for our respective businesses.

OUTLOOK

Looking forward we continue to have many challenges and opportunities ahead of us. I am confident that our Business Model will enable us to address the challenges we face, and to continue to deliver PAT and dividend growth for our shareholders.

The market conditions we have experienced at the start of FY06 are in line with what we expected and what we have consistently forecast over the past 12 months.

We are cycling high first quarter FY05 (1Q05) Sales growth of 7.7%. Our 1Q05 performance was enhanced as a result of the 2004 Olympics and the launch of our '4 Years Interest Free' program in August last year. Our current Sales tracking rate for 1Q06 is in line with our

expectations and our budget. We expect Sales to be in the range of -3% to -4% for 1Q05 compared to the first quarter last year. The one-off events in 1Q05 have affected our 'big ticket' categories, however, our other categories are flat on last year, giving us confidence in our Profit position.

We anticipate that by 2Q06 we will see a modest improvement with flat Sales growth for the Christmas quarter and further strengthening of Sales growth in 2H06.

Given that our Sales are in line with expectations, and that our business parameters are set accordingly, we reaffirm the guidance we provided at our 1H05 Results announcement on 22 March 2005 and are confident that the Company's business model will enable us to deliver 5% - 10% per annum PAT growth in FY06 (albeit at the lower end of our target range, given prevailing retail conditions).

We are also confident of delivering 5%-10% p.a. PAT growth in FY07 and FY08. This will drive continued growth in dividends and excess cash, which will be returned to shareholders over time in the most efficient manner.

We will continue our work in the year ahead, on implementing further Revenue Generating initiatives and Financial Disciplines, including finalizing our Capital Management Review (in conjunction with independent advisors Gresham Partners).

I look forward to reporting back to you over the next 12 months on the continuing progress we are making and the results we are achieving through implementation of the 2003 Strategic Review initiatives.



Mark McInnes
CHIEF EXECUTIVE OFFICER