

MESSAGE FROM THE CHAIRMAN

Robert Savage
Chairman



Dear fellow shareholders,

On behalf of the Board of David Jones Limited, I am pleased to present our Company's Annual Report for the 2005 financial year (FY05).

In June 2003 we completed the review of our Company's strategy and operational targets, so this is the second full financial year that our Company has reported on performance against those objectives.

Since that date our Company has delivered:

- an **82% increase in Profit after Tax** (from \$42.7 million in FY03 (pre significant items) to \$77.9 million in FY05; and
- a **117% increase in fully franked dividends to ordinary shareholders** from 6 cents per share (cps) to 13 cps in FY05.

OVERVIEW OF FY05

A detailed review of our Company's FY05 financial and business performance is set out in the Chief Executive Officer's (CEO) Report. There are however a few highlights that I would like to specifically mention.

FY05 was an important year for our Company because for the first time our Company's Strategic Review Business Model was tested in a challenging retail environment. Over the past six to nine months there has been a significant slowdown in consumer spending. Whilst many other retailers became casualties of these conditions, our Company's business model demonstrated its ability to continue to deliver profit and dividend growth throughout the economic cycle.

I am pleased to report that despite the difficult trading environment our Company delivered a record **Profit after Tax (PAT)** of **\$77.9 million in FY05**. This represents PAT growth of 19.2% on FY04 and growth of 82% on FY03 PAT (pre significant items).

Sales for the year grew by 3.3% on a "like-for-like" basis and **Earnings before Interest and Tax (EBIT)** an increase of 14.2% on FY04 to \$108.8 million.

Capital Expenditure was once again well managed this year (total spend for FY05 was \$38.9 million). Whilst adhering to a disciplined Capital Expenditure program I am proud to report that our Company's **Refurbishment Program** is on track and that throughout the year a number of important refurbishment works were successfully completed.

First and foremost the Company completed one of its most exciting and ambitious store programs to date – **the refurbishment of the Ground and Lower Ground floors of our flagship Elizabeth Street store**. These two floors have set a new standard for Australian Department Stores and are amongst the world's best Cosmetics and Accessories floors.

In addition, in September 2004 the Company unveiled a completely refurbished Foodhall in the David Jones Bourke Street store, offering a compelling mix of gourmet foods to eat in or take away. We have been delighted with the customer response to the new Foodhall.

The Company also completed the installation of 262 individual brand concept areas across the portfolio

MESSAGE FROM THE CHAIRMAN

of David Jones stores throughout Australia, further supporting management's objective of providing Australia with a contemporary, brand-based department store business that is on par with the world's best.

At year end the Company's **Cash on hand** was \$147.2 million, an increase of just over 50% on FY04. Whilst part of this was as a result of the sale of the Queen Street property, I believe this increase is a clear indication that our Company's business model is achieving our Strategic Review objective of strengthening cashflows to enable us to return excess cashflows to shareholders on an ongoing basis. The Board and I genuinely believe that a solid foundation has been laid from which our Company's cashflows can strengthen and grow and from which we can deliver on-going earnings growth to shareholders in future years, regardless of the peaks and troughs of the economic cycle.

FY05 DIVIDEND

As evidence of the Board's commitment to strengthen cashflows and to return excess cash to shareholders I am delighted to report that a fully franked dividend of 7 cents per ordinary share was declared for the second half of FY05.

Added to the 6 cent fully franked dividend per share declared for the first half of FY05, this takes the total dividend declared in FY05 to 13 cents per ordinary share, fully franked.

This represents an increase of 18.2% on the FY04 dividend of 11 cents per share.

NEW, INCREASED DIVIDEND PAYOUT POLICY

For future financial years commencing on or after 1 January 2005, the Australian Accounting Standards Board (AASB) has mandated that Australian companies must comply with Australian Equivalents to International Financial Reporting Standards (AIFRS). David Jones will be required to comply with AIFRS in the 2006 financial year.

Work has been completed on the implementation of these new standards and the impact on our financial statements assessed. Details on this are set out in Note 40 to the Financial Statements.

It is important to note that the AIFRS accounting standards changes are non-cash related and they do not in any way impact David Jones' underlying business which continues its excellent performance and generation of strong cashflows and earnings. Nevertheless, AIFRS will result in an accounting adjustment to the Company's Profit & Loss Statement (P&L) in FY06.

In order to ensure that the spirit of the Company's current dividend payout policy (of not less than 75% of PAT under the current Australian Accounting Standards (AGAAP)) is maintained and that shareholders are not adversely impacted or disadvantaged as a result of the Company's adoption of AIFRS, **the Board has resolved (with effect in FY06) to increase the Company's dividend Payout Policy to not less than 85% of Profit after Tax under AIFRS.** This increase is intended to maintain the level of current dividend payments and to reflect the fact that the AIFRS P&L adjustments are non-cash related and do not impact the Company's dividend paying ability.

CAPITAL MANAGEMENT

Under AIFRS the Company's cash and franking credit positions remain unchanged. This means that the Capital Management options that management and the Company's advisors have been considering continue to be available.

The Company has until the end of January 2006 to utilise all or part of its \$75 million Retained Earnings balance in the FY05 Accounts (reported under AGAAP). The Company is on track with its Capital Management Review, including finalisation of financial arrangements relating to the Sale & Leaseback (due for completion in November 2005) and expects to announce its Capital Management Review findings soon after completion of the refinancing.

NON-CASH, SHAREHOLDER APPROVED CAPITAL REDUCTION

In addition to any Capital Management initiatives that are announced this year, the Company intends to undertake a shareholder approved non-cash capital reduction in calendar 2006 to offset the impact of AIFRS changes to its Retained Earnings.

A further update on this will be provided in due course.

CORPORATE GOVERNANCE

Since my appointment as Chairman, 'Corporate Governance' has been a key area of my focus. I acknowledge and recognise the important role that public company boards should play in upholding high Corporate Governance standards.

Pages 13 to 27 of this Report set out details of our Company's Corporate Governance policies and practices and should assist shareholders in appreciating the importance the Board and I place on Corporate Governance issues.

I am pleased to report that in relation to the 2003-2005 Long Term Incentive Plan Offer (that was approved by shareholders at the 2003 and 2004 Annual General Meetings) all of the performance hurdles have been met. In the period FY03-FY05, David Jones achieved Total Shareholder Returns (reflecting both Capital Growth and Dividends paid to shareholders) of 97.6%. The Company performed in the top quartile of its peer group companies (which group was approved by shareholders) and was the best performing retailer in the group.

One of our key governance achievements in FY05 was to enter into a new Executive Service Agreement (CEO Contract) with our Company's CEO Mark McInnes. The CEO Contract replaces the service agreement executed by the Company and Mr McInnes on 14 October 2003.

Detailed disclosure of the terms of our CEO's Contract including his remuneration package were set out in an ASX Release dated 3 August 2005.

The Board and I have been cognizant for some time now of the need to retain, motivate and remunerate our key executive whilst at the same time ensuring that

payments and benefits under the CEO Contract are linked to the financial performance of the Company and to shareholder returns. We have also wished to ensure the continuity of management to enable the Company to deliver on its Strategic Review targets – hence the new CEO Contract has incentives for Mr McInnes to remain in his role until 31 July 2008.

In determining the final package payable to Mr McInnes, the Board and I have sought to ensure the package is commensurate with payments made to chief executives of similar businesses. In this regard we sought and obtained advice from a number of Executive Remuneration specialists.

Full details of Mr McInnes' package together with that of other senior management are set out on pages 46 to 48 of this Report.

THANK YOU

The David Jones executive management team and all staff, led by CEO Mark McInnes, have worked very hard over the past 12 months to ensure our Company delivered an outstanding financial performance in FY05 despite exceptionally challenging retail conditions. I take this opportunity to congratulate them on an excellent result and to thank each and every one of them for their hard work and commitment throughout the year.

I thank shareholders for their support since the announcement of the Strategic Review. I am pleased and proud to be able to present this year's Annual Report on behalf of the Board and to return excess cashflows to shareholders in the form of a fully franked dividend of 13 cents per ordinary share for FY05.

I look forward to our Company continuing its track record of performance and its commitment to creating and delivering value to our shareholders.



Robert Savage
CHAIRMAN