



For Immediate Distribution

23 September 2003

DAVID JONES FY2003 UNDERLYING RESULT AT UPPER END OF GUIDANCE

- **NPAT** * (before Significant Items) of **\$42.7 million, up 20%** and at upper end of guidance;
- Gross Profit, Costs, Significant Items, and Profit after Tax **all in line with guidance** provided at Strategic Review on 3 June;
- Achieved **strong retail Gross Margins of 36.1% in 2H03, +71 basis points over 2H02;** (FY03 36.5%; FY02 35.9%)
- **Good progress** being made on implementation of **Strategic Review initiatives;**
- **Foodchain exit & Online repositioning completed, Fountain Gate** lease arrangement renegotiated;
- **Significant Items of \$84.3 million (before tax)** leading to **final NPAT* loss of (\$25.5) million;**
- **Final Dividend of 3 cents per share (fully franked)** declared – taking the **total dividend** for FY03 to **6 cents per share.**

David Jones Limited (DJS) today reported net profit after tax (NPAT) (before RPS dividends and significant items) of \$42.7 million for the financial year ended on 26 July 2003 (FY03). This represents a 20.2% increase on NPAT for FY02 (\$35.5 million), which is at the upper end of the company's stated target of 15%-20% earnings growth per annum (see detailed table in Annexure A).

As foreshadowed at the time of the Strategic Review announcement, Significant Items of \$84.3 million before tax (\$68.2 million after tax) were incurred in FY03. Details of these Significant Items are set out in Annexure B to this release and include the costs associated with exiting the Foodchain business, the repositioning of Online and costs associated with the renegotiation of the Fountain Gate lease arrangement.

As a result of these Significant Items, a loss of \$25.5 million (after tax and significant items) was incurred in FY03. This is consistent with the Strategic Review announcement on 3 June 2003 that the company expected one-off significant items to amount to more than \$78 million (pre tax) and to result in a post tax loss of more than \$20 million in the 2003 financial year.

As previously announced on 15 August 2003, full year sales of \$1,711 million for FY03 were up 2.6% on the previous year (FY02 : \$1,668 million).

* NPAT is before reset preference shares (RPS) dividends

DAVID JONES

The company's earnings before interest and tax (EBIT) and significant items for the department store and credit card business in FY03 was \$69.6 million compared to \$68.0 million in FY 02, up 2.3%.

David Jones Chief Executive Officer Mr McInnes said, "We have delivered NPAT growth (before RPS dividends and Significant Items) of 20.2% in FY03 – at the upper end of our guidance of 15% to 20% earnings growth per annum.

"Our Strategic Review confirmed that our department store business is an excellent business. It has a strong market position, a powerful brand, a loyal customer base and a well established and successful Brand Strategy.

"Since 3 June 2003, we have made good progress in implementing the Strategic Review initiatives. Whilst the FY03 Significant Items are substantial, the benefits that will arise as a result of implementation of the Strategic Review initiatives, far outweigh these initial one-off costs.

"We are confident that by FY04 we will see a significant improvement in the size, sustainability and quality of our earnings," Mr McInnes said.

KEY ITEMS	2003 \$m	2002 \$m	% Change
Sales	1,711.2	1,668.2	+ 2.6%
Total EBIT before significant items	65.2	57.8	+ 12.8%
Total EBIT	(19.1)	19.0	* n/m
NPAT before significant items and RPS dividends	42.7	35.5	+ 20.2%
NPAT and significant items before RPS dividends	(25.5)	6.6	* n/m
Basic EPS before significant items and after RPS dividends	9.2cps	8.8cps	+ 4.5%
Full Year 2003 Ordinary Dividend per share	6cps	7cps	- 14.3%
* not meaningful			

CORE DEPARTMENT STORE BUSINESS

Despite a slow down in consumer spending and a competitive sales environment, sales for the core department store business in FY03 were \$1.675 billion compared to \$1.631 billion in FY02. This represents an increase of 2.7% compared to last financial year.

Core department store EBIT declined by 10.5% in FY03. Despite a strong increase in gross margin, costs increased substantially over the previous year due to increases in rent, occupancy, insurance and other areas. This was a key factor taken into account in the Strategic Review, which included a focus on cost efficiencies and set a program to deliver \$50 million savings in costs over 3 years.

Although retail sales were strong in the first three quarters of the year, the last quarter experienced a slow down reflecting the one-off impact of two key store refurbishments (Market Street Foodhall and Bondi Junction), an unseasonably warm winter and increased discounting activity by competitors.

David Jones achieved retail **gross margins** of 36.5%, which is 60 basis points higher than FY02. To a large extent, these strong margins can be attributed to the continuation, development and expansion of the company's Brand Strategy. This strategy provides the company with a level of protection against competitor discounting in differentiated key merchandise categories and enabled the company to adopt a strategic approach to its promotional activity.

In addition to strong margins, well-established stock management practices resulted in aged stock inventory levels for the group being maintained below 5% of total inventory. The company's tight inventory management practices are well established within the business.

The total Cost of Doing Business (CODB) percentage for the year was 33.7% compared to 32.6% last year. This is in line with the guidance (provided at the first half '03 results) of a greater than 100 basis points increase in costs in 2H03. Cost Efficiencies were flagged as a key issue in the Strategic Review of 3 June 2003.

CREDIT CARD BUSINESS

David Jones' Credit Card business posted another excellent result delivering EBIT of \$22.1 million, up 47.8% on last year (FY02 EBIT: \$14.9 million). This result reflects growth in the overall card base, a strong sales performance, tight cost management and low levels of doubtful debts.

STRATEGIC REVIEW UPDATE

Mr McInnes said "We have made significant progress since 3 June 2003 in implementing the Strategic Review initiatives.

"We have completed our restructure enabling us to focus on our core business. Good progress is being made in our Cost Efficiencies program and we have established tight guidelines and disciplines for our Capital Expenditure program.

"In view of the progress we have made in these areas we are on track to deliver the Strategic Review outcomes announced to the market on 3 June 2003," Mr McInnes said.

Restructure to Focus on Core Business

As announced on 3 June 2003, a key component of the Strategic Review was the thorough review of each of David Jones' businesses and an objective assessment of their performance and their prospects going forward. On the basis of this review it was decided that during the remainder of the 2003 financial year a restructuring of the business would take place to enable the company to refocus on its core department store business. This restructure involved the exit from Foodchain, the repositioning of the Online business and a thorough review and assessment of the store portfolio.

Mr McInnes said, "As a result of this restructure our entire management team is now focussed on driving results from our department store business."

Foodchain: The Foodchain business generated an operating loss of \$6.9 million in FY03 compared to a loss of \$12.7 million in FY02 (before Significant Items).

In accordance with the Strategic Review decision to exit the Foodchain business, all Foodchain stores ceased trading on 28 June 2003. Two leases (St Kilda and Manly) were assigned to Freedom Group Limited's subsidiary Bayswiss and the other two (Brighton and Hawthorn) were terminated in early July 2003. The total cost to David Jones of exiting the four leases that were in place at the date of the Strategic Review announcement was \$10.2 million. David Jones has no further contingent liabilities or obligations relating to any of the Foodchain leases.

In addition to the Foodchain lease exit costs above, the company also incurred \$28.8 million before tax in FY03 for one-off costs associated with exiting the Foodchain business, including non current asset write offs, restructuring costs and the cost of exiting the Port Melbourne Foodchain agreement (as announced on 24 January 2003).

David Jones Online: In keeping with the Strategic Review announcement that the Online business would be repositioned, as from July 2003, general merchandise ceased being available for sale Online. The Online business today is primarily an integrated marketing site providing marketing information, access to David Jones card statements, in-store event and investor information, the ability to view bridal and gift registers and between October and December each year, the ability to buy Christmas hampers.

Total one-off costs associated with repositioning the Online business were \$6.4 million before tax.

Department Store Portfolio: A key component of the Strategic Review was the assessment of each of the stores in the group's store portfolio. As announced on 3 June 2003, the company wrote down the carrying value of the **Hornsby** store in the company's accounts by \$7.9 million in FY03 to reflect its true value in terms of current and expected trading performance.

As announced on 15 September 2003, Westfield Trust agreed to terminate the original lease agreement for **Fountain Gate** and to enter into a revised agreement. David Jones paid Westfield Trust a \$9.8 million termination fee, which is reflected in the FY03 accounts. Under the terms of the revised leasing arrangement:

- There has been a reduction in David Jones' store size obligations from 15,000 square metres to 12,500 square metres bringing the store size in line with the successful store formats utilised by David Jones in other Westfield centres such as Parramatta and Miranda;
- The opening date for the store has been delayed from the period 2007-2010 to the period 2008 – 2012; and
- Westfield has undertaken to fund the store's fit-out costs of \$13 million (in 2008 dollar terms).

As confirmed on 3 June 2003 the decision to close the **Rockingham (Western Australia)** 'Aherns' store upon expiry of the lease at the end of July 2004, has meant that a one-off Significant Item cost of \$1.3 million before tax was incurred in FY03.

Asset Register & Accounting Policy Review

In addition to the restructure outlined above, a full review of the company's asset register and accounting policies was undertaken as part of the FY03 Strategic Review. On the basis of this review a number of one-off charges have been recognised, including store and head office asset writedowns and inventory valuation refinement. These are set out in detail in Annexure B.

Total asset register and accounting policy review adjustments in FY03 amounted to \$18.6 million before tax.

Total Significant Items

Total Significant Items for FY03 were \$84.3 million before tax (\$68.2 million after tax). Each of the individual Significant Item costs relating to the restructure and the accounting and asset review adjustments are set out in detail in Annexure B, together with a breakdown of each of these charges.

All of the Significant Items are one-off costs that have been provided for in full in the 2003 financial year.

Cost Efficiencies Program

Since announcement of the Strategic Review on 3 June 2003 implementation of a new cost management program targeting non-customer service related areas has been commenced. As announced, this program is designed to generate savings that more than offset costs arising as a result of investment in key store refurbishments and improved customer service.

Despite the fact that the Strategic Review Cost Efficiencies program only commenced in the last two months of the 2003 financial year, significant progress has been made in identifying and generating savings and efficiencies in areas such as non-merchandise procurement, information technology, logistics and supply chain functions as well as visual merchandising initiatives and non-customer service related store savings.

Mr McInnes said, "On the basis of the progress made to date, we are confident that we will deliver our budgeted FY04 cost efficiencies of \$17 million."

Capital Expenditure (Capex)

Another key initiative implemented as a result of the Strategic Review was the establishment of a Capex Committee and clear Capex guidelines and disciplines that focus on amount spent, timing of investment and return on funds employed.

The company has allocated \$50 million per annum for the next five years to be used for capex purposes. This will include approximately \$35 million per annum for the strategic refurbishment of key department stores. A further \$10 million - \$12 million per annum will be invested in IT.

Capex in FY03 amounted to \$61.9 million compared to \$70.6 million in FY02. The major areas of capex investment in FY03 were the refurbishment of the Market Street Foodhall (which reopened on 25 August 2003) and the refurbishment of the Bondi Junction store (which will be completed in November 2003).

CAPITAL MANAGEMENT

Return on funds employed** (ROFE) for FY03 was 14.8% compared to 12.4% in FY02.

Mr McInnes said, "We are on track to achieving our benchmark ROFE hurdle rate of 15% by FY04.

"We are committed to strengthening and growing the cashflows of the business to return the excess, that is not needed in the ongoing business, to shareholders in an efficient manner.

EARNINGS PER SHARE & DIVIDENDS

Basic earnings per share (EPS) before significant items increased by 4.5% from 8.8 cents in FY02 to 9.2 cents in FY03.

To reflect its confidence in the new management team and the future earnings potential of the business the Board has declared a final dividend of three cents per ordinary share fully franked (bringing the total for FY03 to 6 cents (fully franked) per share (2002: 7 cents). The final dividend will be payable on 5 November 2003. The final dividend is in line with guidance provided at the announcement of the Strategic Review on 3 June 2003, and after allowance for the Reset Preference Share dividend, is in line with our current payout policy of 60%-80% of NPAT before significant one-off items. As announced at the Strategic Review, the Dividend Reinvestment Plan has been suspended prior to payment of the final FY03 dividend.

OUTLOOK

Mr McInnes said "FY03 has been a year of significant change for our company. I am confident however, that the Strategic Review initiatives which we have commenced implementing since 3 June 2003 will deliver a clear path to on-going earnings growth and a strong cashflow position.

"We anticipate that our revenue performance in the first quarter of FY04 (1Q04) will be constrained by disruption resulting from the Bondi Junction and Market Street refurbishments and volatile consumer sentiment. We are also a cyclical business that is coming off strong like for like sales growth rates of 5.8% in 1Q03, 3.4% in 2Q03 and 2.7% in 3Q03. Nevertheless, we are on track to delivering 1.5% to 2.5% sales revenue growth in FY04, as forecast at the Strategic Review announcement on 3 June 2003. Our trading to date for 1Q04 is within this band.

"In view of this, we reaffirm our FY04 profit after tax guidance of \$52 million - \$56 million (before RPS)" Mr McInnes said.

** ROFE is EBIT before Significant items and goodwill divided by average funds employed

Ends

FOR FURTHER INFORMATION CONTACT:

Helen Karlis
General Manager Corporate Affairs and Investor Relations
David Jones Limited
02 9266 5960
0404 045 325

ANNEXURE A

PROFIT SUMMARY	This Year \$m	Last Year \$m	% Change
Sales - Department stores	1,674.6	1,631.1	+ 2.7%
Sales - Foodchain	36.6	37.1	- 1.3%
TOTAL SALES	1,711.2	1,668.2	+ 2.6%
Gross profit - Department stores % to sales - department stores	611.8 36.5%	585.6 35.9%	+ 4.5%
Cost of Doing Business % to sales - department stores	564.3 33.7%	532.5 32.6%	+ 6.0%
EBIT - Department stores % to sales - department stores	47.5 2.8%	53.1 3.3%	- 10.5%
Credit	22.1	14.9	+ 47.8%
EBIT - Department stores + Credit % to sales - department stores	69.6 4.2%	68.0 4.2%	+ 2.3%
Property	2.5	2.5	-
Foodchain	(6.9)	(12.7)	- 45.8%
EBIT - Total % to total sales	65.2 3.8%	57.8 3.5%	+ 12.8%
Net Interest Expense	3.3	7.4	- 55.4%
Profit before tax	61.9	50.4	+ 22.8%
Income tax expense	19.2	14.9	+ 28.9%
Profit after tax before Significant Items *	42.7	35.5	+ 20.2%
Significant Items			
Effect of discounting interest free sales to fair value	-	(2.5)	
Inventory rebate adjustment	-	(6.9)	
Foodchain restructuring costs	-	(24.8)	
Foodchain business closure	(39.0)	-	
Online business restructure	(6.4)	-	
Store closure provision - Rockingham	(1.3)	-	
Lease termination costs - Fountain Gate	(9.9)	-	
Corporate head office restructuring	(1.1)	(4.6)	
Hornsby asset writedowns to recoverable amount	(7.9)	-	
Other asset writedowns to recoverable amount	(8.4)	-	
Corporate Head Office asset writedowns to recoverable amount	(2.3)	-	
Inventory cost refinements	(6.4)	-	
Other adjustments	(1.4)	-	
Total Significant Items (before tax)	(84.3)	(38.9)	+ 116.9%
Tax on Significant Items	16.1	10.0	+ 61.9%
Total Significant Items (after tax)	(68.2)	(28.9)	+ 135.8%
Profit after tax & Significant Items *	(25.5)	6.6	- 487.0%
* pre RPS			

DIVIDEND INFORMATION	This Year cps	Last Year cps	% Change
Interim dividend on ordinary shares	3.0	4.0	- 25.0%
Final dividend on ordinary shares	3.0	3.0	-
Interim dividend on RPS	\$4.0833	n/a	-
Final dividend on RPS	\$4.0167	\$0.6879	+ 483.9%
Basic EPS	(7.5)	1.5	- 600.0%
Basic EPS before significant items and after RPS dividends	9.2	8.8	+ 4.5%

ANNEXURE B

SIGNIFICANT ITEMS

	F2003 \$m
Foodchain Business Closure	
– Lease Exit Costs	14.7
– Restructure Costs	5.0
– Non current asset written off	<u>19.3</u>
Total	<u>39.0</u>
Comment: Restructuring costs associated with the exit of the business (lease exit costs, asset writedowns, redundancies, etc.)	
Online Business Restructure	
– Lease exit costs	0.2
– Restructuring costs	2.3
– Non current asset written off	<u>3.9</u>
Total	<u>6.4</u>
Comment: Restructuring costs associated with the repositioning of DJ Online to principally a marketing site – asset writedowns, redundancies, etc.	
Other Restructuring	
– Store closure provision – Rockingham	1.3
– Lease termination costs – Fountain Gate	9.9
– Corporate Head Office	<u>1.2</u>
Total	<u>12.4</u>
Comments:	
– Provision for costs associated with planned closure of Rockingham in July'04	
– Payment associated with termination and renegotiation of lease arrangements for future Fountain Gate location	
– Costs associated with restructuring activities undertaken as a result of the Strategic Review.	
Write down in Value of Plant and Equipment to Recoverable Amount	
– Hornsby	7.9
– Other stores	8.5
– Corporate Head Office	<u>2.3</u>
Total	<u>18.7</u>
Comments:	
– Writedown of Hornsby store assets to reflect true value in terms of current and expected trading performance	
– Writedown of assets on the Stores and Head Office asset registers that do not exist or are unusable, including design fees (due to a significant reduction in future capex spend on store refurbishments)	

	F2003 \$m
Accounting Policy Refinements and Adjustments	
– Inventory cost refinement	6.4
– Other adjustments	<u>1.4</u>
Total	<u>7.8</u>
Comments:	
<ul style="list-style-type: none"> – A portion of internal charges for freight recoveries and import subsidies are now allocated to inventory on hand at year-end, and recognising as a reduction in the cost of inventories an additional adjustment for inventory that will become aged in the 6 months period after the reporting date – Adjustments related to the Strategic Review including an allowance for lease stamp duty 	
TOTAL SIGNIFICANT ITEMS BEFORE TAX	84.3
Tax on Significant Items	(16.1)
TOTAL SIGNIFICANT ITEMS AFTER TAX	<u>68.2</u>