



2005 ANNUAL GENERAL MEETING

FRIDAY 2 DECEMBER 2005

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S ADDRESS

ROBERT SAVAGE

Chairman

Ladies & Gentlemen and fellow shareholders, welcome again to our Annual General Meeting, our principal opportunity to speak with our shareholders about our Company and its progress.

Today, throughout the course of my report and our CEO's report which follows, we will provide you with an overview of the past 12 months and the bright future that lies ahead for our Company.

There are also a number of important items on the Agenda, which I will cover with you in some detail prior to our voting on these items.

As always, the opportunity to ask questions will be available to the meeting.

As you know this is the second full financial year that our Company has reported its performance against the objectives and targets set as part of our Company's June 2003 Strategic Review.

On behalf of the Board of David Jones Limited, I am pleased to report to shareholders that since June 2003 our Company has delivered:

- an **82% increase in profit after tax**; and
- a **117% increase in fully franked dividends** paid to ordinary shareholders.

I believe that this demonstrates that our Business Model can deliver ongoing profit and dividend growth despite fluctuations in the economic cycle.

OVERVIEW OF FY05

Our CEO Mark McInnes will during his report today, cover details of our Company's FY05 financial and business performance. 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, established during the 2003 Strategic Review, 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 in FY05 our Company delivered:

- a record **Profit After Tax (PAT)** of **\$77.9 million** representing 19.2% growth on FY04; and
- a **total dividend** of **13 cents** per ordinary share, fully franked (up from 11 cents in FY04).

DAVID JONES

David Jones Limited A.C.N. 000 074 573
A.B.N. 75 000 074 573

Capital Expenditure was once again, well managed this year with total spend for FY05 being \$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 we have completed one of our 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 offerings in the world.

In addition, in September 2004 we 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 reception.

I am also pleased to report today, that in the period FY03-FY05, David Jones achieved Total Shareholder Returns (reflecting both Capital Growth and Dividends paid to shareholders) of 97.6%. Our Company performed in the top quartile of its peer group companies and was the best performing retailer in the group.

As a result, all of the performance hurdles in relation to the 2003-2005 Long Term Incentive Plan Offer (which was approved by shareholders at the 2003 and 2004 AGMs) have been met and 3.4 million shares or just under 1% of the capital was issued to senior members of the management team.

NEW, INCREASED DIVIDEND PAYOUT POLICY

The strong cash returns generated by our business have placed us in a strong financial position, with cash on hand at year end of \$147 million which is accompanied by a solid franking credit balance.

Looking forward, 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 the International Accounting Financial Reporting Standards.

As explained in the Annual Report, our Company will be required in FY06 to comply with the International Financial Reporting Standards. These Standards will result in a number of non-cash related accounting adjustments to the Company's P&L which do not in any way impact David Jones' underlying business.

The increased dividend payout policy 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 & NON-CASH, SHAREHOLDER APPROVED CAPITAL REDUCTION

I am pleased to report that we are on track with finalizing our Capital Management Review and expect to announce the Capital Management Review findings in the next week or so.

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.

The Annual Report sets 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 our Company achieved a 5 Star Rating (the highest possible ranking) in the 2005 Horwath Corporate Governance Report - an independent review of the Corporate Governance standards of Australia's top 250 companies.

This is the fourth year in a row that David Jones has been awarded 5 stars and I am delighted to report that of the 250 companies assessed, David Jones was rated as the 6th best (up from a ranking of 15th in FY04). In the Retail Sector, our Company was the top ranked company for Corporate Governance.

CEO CONTRACT

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.

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 also wanted 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 in the Annual Report.

RATIONALISATION OF THE RETAIL MARKET SPACE

As has been widely reported in the financial media, significant rationalisation and consolidation is taking place in the Australian Retail Market with the commencement of a process for the potential sale of the Myer department store business.

Our Company has publicly stated that as a department store operator we obviously have extensive knowledge of the Australian Department store sector, hence we believe we are a logical buyer of a handful of the Myer stores. The stores of interest to us are located in areas where we do not currently have an existing presence and in which, if we were not successful in acquiring we would seek to independently establish a presence through expansion of our retail footprint over the next 5-10 years.

We are open to discussing opportunities regarding the sale of Myer with others who have compatible interests and where such an arrangement could provide a mutually beneficial outcome.

AGENDA

As set out in our Notice of Annual General Meeting dated 7 October 2005, we have a number of items on our Agenda today.

Most importantly, shareholders will be considering David Jones Financial and Statutory Reports.

Shareholders will be asked to consider the re-election of Stephen Goddard and me as Directors of the Company.

Shareholders will also be asked to consider the adoption of the Remuneration Report. This is a very important issue and immediately prior to voting on this resolution I will provide you with an overview of our Remuneration Strategy and the Report.

The two final items on the agenda also relate to Remuneration, specifically the remuneration for our two executive directors. The first relates to the CEO and Finance Directors' incentivisation via their continued participation in the David Jones Long Term Incentive Plan. Approval will be sought from you, our shareholders for a grant of ordinary shares which covers the FY06 – FY08 Performance Period.

The second item refers specifically to the retention of the CEO and the Finance Director. This item is put forward to shareholders for approval with the objective of securing the continued implementation of our Strategic Review Strategy until the end of FY08 by reducing the risk of our CEO and Finance Director being poached by other employers.

THANK YOU

Ladies & Gentlemen, on behalf of the Board I would like to congratulate the David Jones management team and all staff, ably led by CEO Mark McInnes, for delivering an outstanding FY05 performance.

I thank each of them for their hard work over the past 12 months – it is their hard work which has enabled our Company to deliver an outstanding financial performance in FY05, despite exceptionally challenging retail conditions.

I would also like to thank shareholders for their support throughout the year.

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

I will now hand over to our CEO Mr Mark McInnes to report to you on our Company's performance and achievements in the 2005 financial year.

MARK McINNES

Chief Executive Officer

Thank you Chairman and good morning ladies and gentlemen.

I would like to commence my Report to you today by taking 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 a company with an iconic brand such as David Jones.

During the course of the 2005 financial year I have had the privilege and responsibility of leading our Company through a very challenging retail environment. FY05 has been a very testing, yet rewarding 12 months. Throughout the second half of the year, retailers in Australia experienced a pronounced and well-publicised slowdown in consumer spending.

I am pleased therefore to report that despite the consumer spending slowdown, our Company delivered a **record Profit in FY05** – our **strongest full year result since listing in 1995**. In comparison to other listed Australian retailers this has been a remarkable performance.

Our performance in FY05 has demonstrated that our Company has a solid and sustainable Business Model that will enable us to continue to deliver value to shareholders (in the form of Profit and dividend growth) on an ongoing, long-term basis, regardless of fluctuations in the economic cycle.

Having delivered a record profit result in FY05 and having paid the highest dividend ever declared by our Company since listing in 1995, I genuinely believe that our Company has a very bright future.

Both our Core Department Store business and our Credit Card business were strong contributors to our Company's FY05 Profit result and have performed well since the 2003 Strategic Review. We have a number of exciting opportunities in each of these businesses that we are pursuing.

In relation to our **Core Department Store business**, over the past 12 months we completed the installation of 262 individual brand concept areas across our portfolio of stores. This is part of our strategy of reinforcing David Jones' status as a contemporary, brand-based department store business that is on par with the world's best. We will continue the roll-out of our brand concept areas over the next 12-36 months and will continue to add exciting new brands to our exclusive brand portfolio.

In addition to the roll-out of our Brand Concept Areas, our Store Refurbishment program has progressed well over the past 12 months with the creation of one of the world's best Cosmetics and Accessory Halls on the Ground & Lower Ground floors of our flagship Elizabeth St, Sydney store. In addition, as part of our overall plan to upgrade our flagship Bourke St, Melbourne store we completed and unveiled a fully refurbished Foodhall and Home Store in that store in FY05.

We will continue this good work over the next 12 –18 months by undertaking a number of ambitious projects including:

- the refurbishment of the Ground Floor Cosmetics and Accessories Hall of our Bourke Street store;
- the refurbishment of our First Floor Elizabeth Street store "Young Fashion" department; and
- completion of our new Queen Street store in Brisbane, which will double the existing trading floor space.

These initiatives will position us well to capitalize on the expected strengthening in consumer spending in FY07 and FY08.

Our **Credit Card business** also has an extremely bright future. This business has been a strong profit contributor for our Company for a number of years and continues to be so. Looking forward there are a number of opportunities that we can capitalize on, including continuing to identify ways of cross-promoting our card through an integrated marketing campaign with our core department store business. This strategy proved to be very effective in FY05 with the launch of our '4 Years Interest Free' campaign.

Another area of opportunity for us to generate value for shareholders in the year ahead is through the continuation of our Financial Discipline initiatives.

Our **Cost Efficiency Program** for example, has been very successful to date. In FY05 we reduced our Cost of Doing Business by 80 bp and we are well on track to deliver a 20-40 bp reduction in our Cost of Doing Business in FY06. We have already commenced work on identifying and implementing Cost Efficiency initiatives that will deliver savings in FY07 and FY08.

Our Company's **capital expenditure** in FY05 was **\$38.9 million**, well below our stated Strategic Review cap of \$50 million p.a. and I am pleased to report that we have stringent measures in place to ensure that our Capex is carefully managed and within our stated cap in the years ahead.

Stock management is another area that we have excelled in since the 2003 Strategic Review. We are confident that we will continue our track record of tight stock management including maintaining aged stock levels below 5% of total inventory, in the year ahead. This will hold us in good stead, in particular in times of challenging retail conditions, evidence of this being 2H05 where our well managed inventory position enabled us (unlike many of our competitors) to deliver profit growth despite a marked slowdown in consumer spending.

As I have publicly stated on a number of occasions in the past, one of the key strengths of our business is its ability to generate strong **Cashflows**. I am pleased to report that Cash on hand at year-end in FY05 was \$147.2 million. Our strong Cash position is one of the factors that we (in conjunction with our advisers, Gresham Partners) are considering as part of our Capital Management Review.

Whilst we continue to have many challenges ahead of us, I am confident that our Business Model and the opportunities I have outlined today will enable us to continue to deliver value to shareholders in the years ahead.

Although it is still early days, we have not so far in FY06 encountered anything we did not anticipate. Our 1Q06 Sales performance was in-line with our expectations, given we were cycling exceptionally high 1Q05 Sales growth of 7.7%. 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.

Our business parameters have been set accordingly and we are on track to deliver in FY06 PAT growth within our target range of 5%-10% (albeit at the lower end of our range given the soft retail conditions in 1H06). We also reiterate our confidence in being able to continue to deliver dividend growth and PAT growth of 5%-10% p.a. in FY07 and FY08.

Looking beyond FY08, we have many exciting opportunities in our core department store and credit card businesses that we can capitalise on. We are currently investigating opportunities to expand our Credit Card/Financial Services business through the introduction of new products and services. We are also focussing on the ongoing Revenue Generating opportunities that exist in continuing the refurbishment of our key department stores as well as the opportunities that exist to expand our retail footprint by opening a handful of stores in high-value locations in core States, including sites such as Chermside and Indoorpilly in Queensland.

In conclusion Ladies & Gentlemen, I genuinely believe our Company has a very bright future and that shareholders are well positioned to enjoy continuing profit and dividend growth.

Before I end my report today I would like to take the opportunity to thank the people who have helped us achieve an outstanding FY05 result:

1. To the leadership team, represented in your annual report as the Management Committee. I firmly believe we have the finest group of leaders in their chosen fields of expertise. Given the current market instability, we have a group of proven leaders who will continue to drive this Company's profit and dividend growth.

2. FY05 was a very challenging year for our business and I feel it is a credit to each of our **employees** that through their hard work our Company was able to deliver an outstanding financial result in an environment where many other listed retailers floundered. I would like to take this opportunity to thank each of our employees and ask them to continue their good work in FY06;
3. I would also like to take the opportunity to thank our **suppliers** for working closely with us in FY05. In a market under restructure, our suppliers can be confident of our market positioning, the success of our business model and our ability to present their brands in world's best practice;
4. Being a service-oriented business I would like to thank our **customers** for their patronage throughout the year. We look forward to continuing to provide you with a unique and special shopping experience; and
5. Most importantly, I would like to thank our **shareholders** for their support. As CEO of David Jones I reiterate my commitment and that of our management team to continuing to deliver to shareholders ongoing Profit and dividend growth.

Ladies & Gentlemen thank you for the opportunity to report to you today. I look forward to being able to report back to you on progress we are making over the next 12 months.
