



## 2008 ANNUAL GENERAL MEETING

FRIDAY 28 NOVEMBER 2008

### CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S ADDRESS

#### ROBERT SAVAGE

Chairman

Ladies & Gentlemen and fellow shareholders, welcome again to our Annual General Meeting, our primary opportunity to meet with our shareholders and to report on our Company's performance over the past 12 months.

This morning, throughout the course of my report and our CEO's Report which follows, we will provide you with an overview of the past year and the exciting 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.

In 2008 David Jones celebrated 170 years of trading. We are proud that our Company is the only department store in the world that has been trading under the same name for such a long period.

In addition to celebrating our 170<sup>th</sup> birthday, the 2008 Financial Year is the fifth since implementation of the 2003 Strategic Plan. We are pleased to report that our Company has delivered a record high Profit After Tax (PAT) result and a record high dividend to shareholders. This is particularly pleasing given that in 2003 we started off a very difficult base (namely a loss of \$25.5 million) and have managed to dramatically turn the performance of the Company around. Based on our five year track record of delivering PAT and Dividend growth, management unveiled the Company's FY09 – FY12 Strategic Plan, which was approved by the Board and which sets the foundations to continue our growth track record over the next four years.

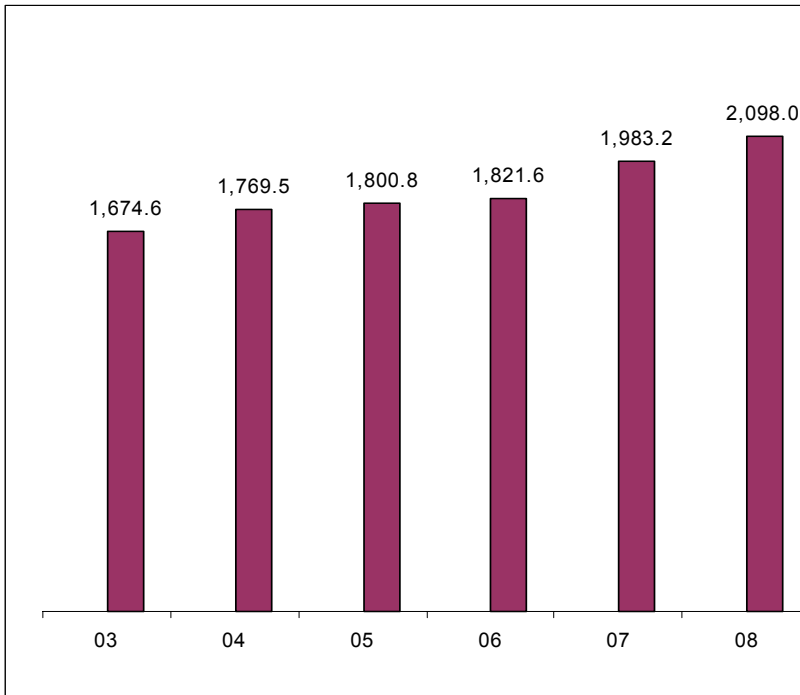
The key highlights of the past 12 months (compared to our Company's performance last financial year and since 2003) include our Company:

- delivering an increase in **Department Store Sales** of more than \$423.4 million since FY03, to \$2,098.0 million in FY08 (refer to Graph 1 below);

## DAVID JONES

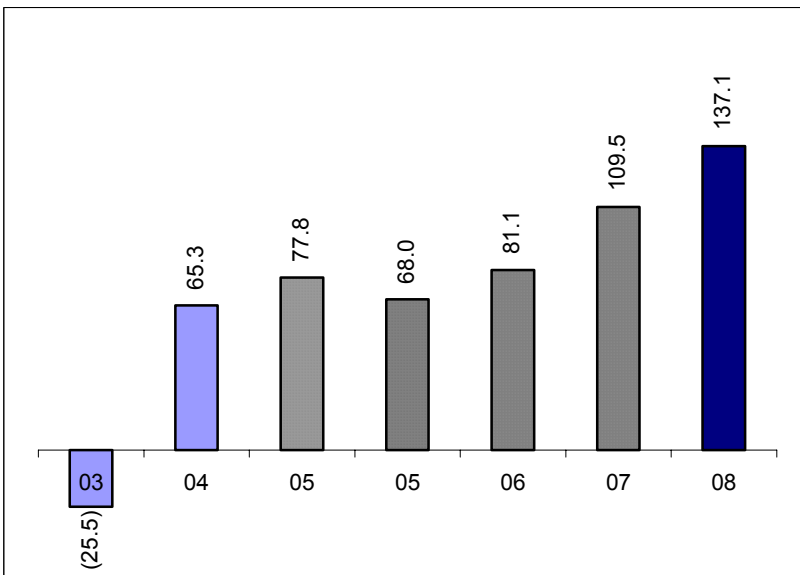
David Jones Limited A.C.N. 000 074 573  
A.B.N. 75 000 074 573

**Graph 1 - Department Store Sales FY03-FY08 (\$m)**



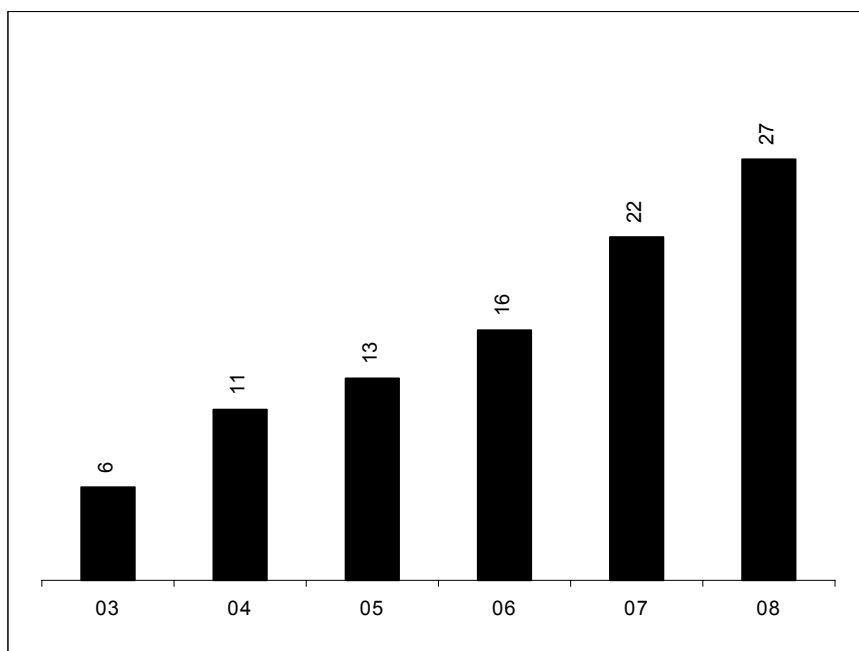
- delivering a year-on-year increase in **PAT** from a loss of \$25.5 million in FY03 (post-significant items under AGAAP) to a profit of \$137.1 million\* in FY08 (refer to Graph 2 below);

**Graph 2 – Profit After Tax FY03-FY08 (\$m)**



- delivering a 350% increase in **fully franked dividends** to ordinary shareholders from 6 cents per share (cps) in FY03 to 27cps in FY08 (refer to Graph 3 below);

**Graph 3 – Dividend FY03 – FY08 (cps)**



- delivering an increase of nearly **150** basis points in **Gross Profit Margin** from FY03\* to 39.5% in FY08;
- decreasing its **Cost of Doing Business** by 340 basis points from 33.7% in FY03\* to 31.2% in FY08;
- maintaining a tight control on **Capital Expenditure** leading to significant reinvestment in our Company’s core business whilst simultaneously increasing our free Cashflow; and
- having low debt levels. Our Company’s existing bank facility of \$350 million extends until 2012. We are in the fortunate position of having only drawn down \$170 million as at the end of July 2008. This means we have a conservative debt position against high quality assets in Sydney and Melbourne, with plenty of “headroom” and a strong Balance Sheet upon which to embark upon implementation of our FY09 – FY12 Strategic Plan.  
*(\*FY03 figure adjusted for AIFRS and S&L impact)*

Our Company has established a strong track record over the past five years, in terms of financial performance and shareholder returns (despite fluctuations in the economic cycle).

Our track record demonstrates the fact that we have a proven business model, a capable management team and a solid foundation for future growth in shareholder returns, regardless of the peaks and troughs of the economic cycle. Most importantly, we have now established a solid foundation from which to implement our FY09 – FY12 Strategic Plan and to implement initiatives that will deliver longer-term success for our Company and ongoing growth in shareholder returns.

#### **DIVIDENDS**

In light of the Company’s strong financial performance in FY08 and the exciting opportunities that lay ahead, the Board has declared a fully franked dividend of **16 cps for 2H08**.

Added to the fully franked dividend of 11 cps declared for the first half of the 2008 financial year, this takes the total **dividend declared for the year to 27 cps, fully franked**. This represents an **increase of 22.7%** on the Company’s FY07 dividend of 22 cps.

The Board and the management team remain committed to delivering ongoing dividend growth.

## **DAVID JONES SHAREHOLDER OFFER**

On 24 September 2008 our Company unveiled a compelling value proposition for shareholders who apply for the new David Jones American Express Card.

Of course the much loved, existing David Jones Store Card will continue to operate with all of its existing benefits other than the 2% shareholder discount which will be discontinued as of 1 February 2009, in line with standard corporate procedure throughout Australia (for example Wesfarmers, Woolworths, Harvey Norman and JB Hi Fi amongst others do not offer shareholder discounts at their retail outlets).

The decision to discontinue the 2% shareholder discount will generate \$2 million per annum of savings, which in turn will flow through to shareholders in the form of enhanced dividends and profits.

## **EMPLOYEES**

FY08 has undoubtedly been a challenging and rewarding year for our Company. Our performance is a credit to each of our employees who were instrumental in enabling our Company to deliver an excellent financial result despite a marked retail slowdown and an environment when many other retailers have floundered. Our employees have demonstrated that we have the ability to successfully deliver PAT growth and Dividend growth throughout the economic cycle and most importantly even during the times of a downturn.

I would like to take this opportunity to express thanks to each of our employees for their hard work, commitment and outstanding contribution in achieving our FY08 results and ask them to continue their good work in FY09.

## **SUPPLIERS & CUSTOMERS**

I would also like to take the opportunity to thank our suppliers (both existing and new additions to our portfolio). Our suppliers are an integral part of our business. As a result the management team is committed to nurturing and strengthening David Jones' relationship with each of its suppliers.

We look forward to continuing to work closely with our suppliers in the year ahead, in a spirit of co-operation and mutual benefit.

Last but most importantly I would also like to take the opportunity to thank our customers for their patronage throughout the year and to reaffirm our commitment to high customer service levels.

## **CORPORATE GOVERNANCE**

Before I end my report today I would like to emphasise the importance that I and your Board place on high corporate governance standards. This continues to be a key area of focus.

Pages 13 to 26 of the Annual Report set out details of our Company's corporate governance policies and practices and should assist shareholders in appreciating the importance that we place on this.

## **AGENDA**

Turning now to the Agenda for today's meeting. As set out in the Notice of Annual General Meeting dated 17 October 2008, we have a number of items on our Agenda today.

Most importantly, shareholders will be considering David Jones' Financial and Statutory Reports. Shareholders will also be considering the re-election of myself as Non-Executive Director, and Stephen Goddard as Executive Director, of the Company.

Shareholders will also be asked to consider the increase in the Non-Executive Directors’ Annual Aggregate Fee Pool.

In addition, shareholders will 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 final items on the Agenda relate to remuneration, specifically the grant of retention rights under the Company’s Retention Plan FY09–11 (which is a part of the Company’s Long Term Incentive Plan) to our CEO and Finance Director covering the FY09-FY11 period.

I will cover each of these important items in further detail prior to our voting on these items.

**CONCLUSION**

I would like to take the opportunity to congratulate our management team for delivering an outstanding financial performance in FY08.

Our Company’s financial health has been restored and management has implemented a strong business model with an excellent track record of delivering shareholder returns, regardless of the peaks and troughs of the economic cycle.

I thank shareholders for their support and am pleased and proud to be able to present this year’s Annual Report and on behalf of the Board to declare an unprecedented dividend of 27 cents per share in FY08.

I look forward to reporting back to you in 12 months and to our Company continuing to grow profits and dividends and delivering value to our shareholders.

I will now hand over to our CEO Mr Mark McInnes to report to you on the Company’s performance and achievements in the 2008 Financial Year.

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## **MARK McINNES**

Chief Executive Officer

Thank you Chairman and good morning ladies and gentlemen.

I would like to commence my Report today by thanking you for giving me the honor and privilege of being the steward of this great Company and brand.

This year, to date, has been an extremely difficult one for all discretionary spending retail companies. Despite an excellent FY08, the FY09 year to date is challenging as the macro-economic conditions impact customer wealth and confidence.

On Wednesday we reported our first quarter sales result. Despite reporting -6.3% in sales our Q1 PAT growth was in line with our 5-10% PAT growth guidance. This demonstrates that our business was well planned for the macro-economic environment we are trading in today.

We have set our expectation of like-for-like sales at -7.5% on the previous year for the next three quarters for the balance of FY09. If this did happen, it would be worse than the department store market experience in the 1990/91 recession. Despite this, if we do trade at -7.5% for the next three quarters, we are confident of achieving our FY09 profit guidance of 5-10% PAT growth.

We are working tirelessly for the best outcome in this challenging retail environment. The current macro-environment is unpredictable and susceptible to shocks. The stock market is down 50% in value on the same period last year and consumers' wealth and confidence has been materially affected by the impacts of global and local wealth destruction. We see no change to this environment for the balance of the 09 year.

Despite this confronting sales outlook for the next 9 months, your Company today, is in the best financial shape since listing in 1995.

Over the last five years we have completely transformed David Jones' business model and strategy from 'high debt/high risk' to a 'low debt/low risk' proposition, with a strong cash generating core business. This is best evidenced by the fact that in 2003 the Company incurred a \$25 million loss, by FY08 the business's performance has been completely turned around and generated PAT of \$137 million.

Throughout this period we have taken the following steps to maximize the financial health of the Company and its Balance Sheet:

- exited previous underperforming businesses such as Foodchain, Online and low value stores;
- reacquired our flagship Sydney and Melbourne CBD store properties;
- converted all Reset Preference Shares on issue into ordinary shares in August 2007;
- sold Little Bourke Street Home Store for \$50 million to partially fund the redevelopment of our Melbourne CBD Store;
- transferred our receivables to American Express who became responsible for credit policy, freeing up \$35-\$40 million in cash;
- undertaken comprehensive renegotiation of merchandise supplier trading terms;
- improved trading terms with all non-merchandise suppliers;
- negotiated with stakeholders to contribute significant capital to help fund future growth projects; and
- delivered a 09-12 Strategic Plan for substantial future growth to the Company without requiring any additional debt

Today, as our Chairman has highlighted, we have:-

- a strong cash position;
- low debt against high quality assets in our Sydney and Melbourne stores;
- a strong balance sheet;
- clean inventory levels;
- an established Cost Efficiencies program;
- ownership, in conjunction with American Express, of our store card and the David Jones American Express card;
- the best national and international brand portfolio across all categories;
- a strategy of service; and
- the best located store portfolio of any department store company against its core demographic.

### **FY08 FINANCIAL PERFORMANCE**

I would now like to turn to our FY08 performance.

From a financial perspective FY08 was a very challenging year for the retail sector. As can be seen from the Access Economics graph on the screen behind me, 3Q08 and 4Q08 experienced a marked slowdown in consumer spending and a severe deterioration in consumer confidence.

Despite this challenging environment our Company delivered a record Profit result and declared a record Dividend – both being the highest since listing in 1995 and demonstrating the ability of our business model to continue to deliver profit and dividend growth throughout the economic cycle. This is all the more pleasing given the fact that many other retailers became casualties of these challenging conditions with major profit downgrades.

As announced on 24 September 2008, our Company reported **PAT** for the financial year ended 26 July 2008, of \$137.1 million\*. This represents an increase of 25.1% on PAT for FY07.

**Sales Revenue** for the year grew by 5.8%, to just over \$2 billion. On a like-for-like basis, Sales grew by 4.5% over FY07.

**Earnings before Interest and Tax (EBIT)** in FY08 was \$212.9 million\* up 21.0% on FY07. The 'EBIT to Sales Ratio' for FY08 was 10.2%, which represents an increase of 130 basis points on FY07.

**EBITDA** increased from \$212.2 million\* in FY07 to \$254.5 million\* in FY08 and now constitutes 12.1% of Sales.

Our **Financial Services business** continued its solid performance track record, reporting growth of 6.3% in EBIT to \$38.4 million in FY08 from \$36.1million in FY07.

The total **Cost of Doing Business (CODB)** percentage for FY08 was 31.2%\*, an improvement of 110 basis points on the FY07 CODB percentage. We are on track to continue to reduce our Company's cost base in FY09.

Despite volatile trading in 2H08 and the requirement to clear seasonal stock the Company's **Gross Profit** percentage for 2H08 was up approximately 10 basis points on 2H07, delivering a full year result of 39.5%.

**Capital Expenditure** in FY08 was \$73.6 million. Allowing for new stores and the Bourke St store refurbishment (which are to be funded from proceeds of the DRP and the sale of the Melbourne Home Store) we met our Company's target cap of \$50 million per annum.

Our **Inventory** has been well managed. We are now in the position of our year-end stock in 2008 being 8% lower than in FY07, which means our Company has a very clean inventory position entering this important half.

Given the macro economic conditions and the difficult year ahead of us, our Company is in a very strong financial position.

Whilst our capital management strategy of building up cash and returning excess cash to shareholders in the most efficient manner over time was considered conservative 18 months ago, today it has proven to be the appropriate model for our Company.

We will continue with that strategy. In addition, we are still making significant investment in our future, but that investment does not require us to take on additional debt. Our \$400 million investment in 09-12 is partly funded by external stakeholders and includes all our 7 sources of value.

1. **Opening 4 – 8 high value new stores** (in addition to Doncaster and Claremont);
2. **Refurbishing 11 – 14 of our high-value stores** to generate short to medium term sales and EBIT growth;
3. Launching and growing of our **new David Jones American Express card** business;
4. Continuing to sustainably **improve gross profit margin**;
5. Delivering **CODB improvements of 50 – 80 bp by FY12** whilst still maintaining our customer service standards;
6. Adopting **stringent capital efficiency disciplines**; and
7. **Managing the business throughout the economic cycle** to ensure the Company continues to grow profit and dividends.

To date we have made significant progress in implementing the FY09 – FY12 Strategic Plan. We have announced:

- our Company's plans to **create Melbourne's pre-eminent department store** by investing \$85 million in the redevelopment of our two flagship Bourke Street Melbourne CBD stores;
- a Company transforming strategic alliance partnership with American Express and launched the new **David Jones branded American Express card** in time for Christmas 2008 trading;
- the successful opening of our **new Doncaster (Vic) store** in the new \$600 million redevelopment of the centre undertaken by Westfield;
- **four new stores out of the 4 – 8 new store target** set out in our FY09 – FY12 Strategic Plan, these being:
  - Sunshine Coast (QLD);
  - Pacific fair (QLD);
  - Macquarie (NSW); and
  - Whitford (WA);
- **nine refurbishments out of the 11-14 high value store refurbishments** outlined in the FY09 - FY12 Strategic Plan, these being:
  - Bourke Street (VIC);
  - Newcastle (NSW);
  - Elizabeth St (NSW);
  - Market St (NSW);
  - Robina (QLD);
  - Bondi Junction (NSW);



- Kotara (NSW);
- Marion (SA); and
- Karrinyup (WA).

We take great care with all of our customers during refurbishments and are conscious, as we build our new stores, to look after all our customers' needs through the building phase. Pleasingly, our new Elizabeth Street, Bondi Junction and Robina stores are finished and on time for the all important Christmas period.

And lastly:

- the addition of **50 new iconic brands** to the David Jones portfolio on a **department store exclusive** basis.

I would now like to comment on philanthropy, occupational health and safety and the role we are playing in the environment.

### **PHILANTHROPY**

In terms of philanthropy, we are conscious that donations are in principle a use of shareholder funds. In 2003, we undertook research to determine where customers would like to see our philanthropic efforts and resoundingly, our customers have told us to concentrate on things that touch their heart:

- Breast cancer
- Children's cancer

Since 2003 we have undertaken significant donations to a range of organisations involved in women's breast cancer and children's cancer.

As a result, we have set up strategic long-term associations with the National Breast Cancer Foundation and the Children's Cancer Institute, as well as supporting key hospitals and fundraisers.

In 2008, we donated over \$600,000 to these organisations.

See page 30 of our Annual Report for full details on our philanthropic activities.

### **OCCUPATIONAL HEALTH AND SAFETY**

David Jones is committed to the health, safety and welfare of all employees, contractors, visitors and customers. In FY08 we launched our OH&S Policy and our Injury Management and Rehabilitation Policy, which reinforces our Company's commitment to preventing injuries and illness by providing a safe working environment. We also have a set of care principles to assist line managers to facilitate a return to work plan for work and non-work related injuries.

We remain committed to best practice occupational health and safety measures.

See page 31 of our Annual Report.

### **ENVIRONMENT**

David Jones continues to take its responsibility for the environment seriously and continues to roll out positive initiatives to improve the impact we have on the environment.

- A 38% reduction in general waste volumes across our business.
- 70-80% of all cardboard we collect is now recycled.

- A 27% reduction in the weight of plastic resin used to produce the same number of plastic bags.
- We have sold over 50,000 reusable bags in FY08.
- Invested \$2.9m to improve energy efficiency by more than 8%.
- We are a signatory to the National Packaging Covenant.

In summary, David Jones has improved overall energy efficiency right across the business. We are conscious of our role to operate responsibly with the environment for long-term sustainability.

### ***Now Turning to Christmas.....***

Whilst we are building future profitable revenue streams for our Company, we are also highly focussed on the upcoming Christmas quarter and meeting all the challenges that the macro-environment will throw at us. In fact, I have just returned from a nationwide 37-store review. I have personally met with each Store Manager and have seen all their plans for this Christmas. Our stores, offers and staff have never been better.

In the upcoming weeks we will continue the David Jones tradition of being the leading gift giving destination for the important Christmas trading period and the subsequent Clearance period. We have an inherent advantage at this time of year as we enjoy the status of a “one-stop” shop, with the broadest selection of gifts for everyone.

I do not wish to underestimate in any way, shape or form, the challenges we are facing in the most difficult macro-economic environment since 1990/91, however, we are ready to tackle these conditions and are setting the Company up for further long-term success. Today we have a strong balance sheet, healthy cash position and low debt. Your Company is financially very healthy to weather this storm.

I give you my commitment to deal with the upcoming period with your best interests at heart, as I and my senior management team have done for the last five years.

Ladies and Gentlemen, thank you for today. I look forward to our team serving you over the Christmas period.

I will now hand back to our Chairman.

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