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For Immediate Distribution **23 May 2014**

DAVID JONES SCHEME BOOKLET REGISTERED WITH ASIC

David Jones Limited (DJS) today announced that the Australian Securities and Investments Commission has registered the Scheme Booklet in relation to the previously announced Scheme of Arrangement **('Scheme')** under which Woolworths Holdings Limited will acquire all of the shares in David Jones.

A copy of the Scheme Booklet, including the Independent Expert's Report, is attached to this announcement. Printed copies of the Scheme Booklet, including the Independent Expert's Report, will be sent to David Jones shareholders over the next week (and those shareholders who have previously nominated an electronic means of notification will be able to access the materials electronically).

The David Jones Board continues to unanimously recommend that David Jones shareholders vote in favour of the Scheme at the upcoming Scheme Meeting to be held on 30 June 2014, in the absence of a superior proposal.

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Shareholder Enquiries
Shareholder Information Line
Computershare
Within Australia: 1300 580 123
Outside Australia: +61 3 9415 4339
Operational Monday to Friday from 9:00 am to 5:00pm

ENDS

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THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION

YOU SHOULD READ IT CAREFULLY AND IN ITS ENTIRETY BEFORE DECIDING WHETHER OR NOT TO VOTE IN FAVOUR OF THE SCHEME

IF YOU ARE IN ANY DOUBT AS TO WHAT YOU SHOULD DO, YOU SHOULD CONSULT YOUR BROKER, FINANCIAL ADVISER OR LEGAL ADVISER IMMEDIATELY

DAVID JONES
SCHEME BOOKLET

IN RELATION TO A PROPOSAL FROM VELA INVESTMENTS PTY LTD,
A SUBSIDIARY OF WOOLWORTHS HOLDINGS LIMITED (SOUTH AFRICA),
TO ACQUIRE ALL THE ORDINARY SHARES IN DAVID JONES LIMITED
BY WAY OF SCHEME OF ARRANGEMENT

YOUR DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU **VOTE IN FAVOUR** OF THE SCHEME, IN THE ABSENCE OF A SUPERIOR PROPOSAL

EACH DIRECTOR INTENDS TO VOTE THE DAVID JONES SHARES THEY OWN OR CONTROL IN FAVOUR OF THE SCHEME, IN THE ABSENCE OF A SUPERIOR PROPOSAL

A Notice of Scheme Meeting is included as Annexure F to this Scheme Booklet, and a proxy form for the Scheme Meeting accompanies this Scheme Booklet.

The Scheme Meeting will be held at 10.00am (Sydney time) on Monday 30 June 2014 at the Wesley Conference Centre, 220 Pitt Street Sydney.

FINANCIAL ADVISERS

MACQUARIE

GRESHAM INVESTMENT HOUSE

LEGAL ADVISER

HERBERT SMITH FREEHILLS

DAVID JONES LIMITED ACN 000 074 573

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IMPORTANT NOTICES

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Nature of this document

This Scheme Booklet includes the explanatory statement for the Scheme required by subsection 412(1) of the Corporations Act.

This Scheme Booklet provides David Jones Limited Shareholders (**David Jones Shareholders**) with information about the proposed acquisition of David Jones Limited (**David Jones**) by Vela Investments Pty Ltd (**Vela Investments**), a subsidiary of Woolworths Holdings Limited (**Woolworths**).

If you have sold all of your David Jones Shares, please ignore this Scheme Booklet.

Defined terms

A number of defined terms are used in this Scheme Booklet. These terms are capitalised and have the meanings set out in Section 13.

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Scheme Booklet are subject to the effect of rounding. Accordingly, their actual calculations may differ from the calculations set out in this booklet.

Important notice associated with Federal Court order under subsection 411(1) of the Corporations Act

The fact that under subsection 411(1) of the Corporations Act, the Federal Court has ordered that the Scheme Meeting be convened and has approved the explanatory statement required to accompany the Notice of Scheme Meeting does not mean that the Federal Court:

- has formed any view as to the merits of the proposed Scheme or as to how eligible David Jones Shareholders should vote (on this matter eligible David Jones Shareholders must reach their own decision); or
- has prepared, or is responsible for the content of, the explanatory statement.

No endorsement

The fact that under subsection 411(1) of the Corporations Act, the Federal Court has ordered that the Scheme Meeting be convened is not an endorsement of, or other expression of opinion on, the Scheme.

ASIC and ASX

A copy of this Scheme Booklet was provided to ASIC for examination in accordance with section 411(2)(b) of the Corporations Act, and was lodged with ASIC for registration under section 412(6) of the Corporations Act. It was then registered by ASIC under section 412(6) of the Corporations Act before being sent to David Jones Shareholders.

ASIC has been requested to provide a statement in accordance with section 411(17)(b) of the Corporations Act that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Federal Court at the time of the Second Court Hearing to approve the Scheme. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet has been provided to ASX. Neither ASX nor any of its officers take any responsibility for the contents of this Scheme Booklet.

No account of personal circumstances

This Scheme Booklet and the recommendations contained in it should not be taken as, and do not constitute, personal financial advice as they do not take into account your individual objectives, financial and taxation situation or particular needs. As such, your Directors encourage you to seek independent financial and taxation advice before making any investment decision and any decision as to whether or not to vote in favour of the Scheme.

Not an offer

This Scheme Booklet does not constitute or contain an offer to David Jones Shareholders, or a solicitation of an offer from David Jones Shareholders, in any jurisdiction.

Foreign jurisdictions

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside Australia who come into possession of this Scheme Booklet should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Scheme Booklet has been prepared in accordance with Australian law and the information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations outside Australia.

Disclaimer as to forward looking statements

Some of the statements appearing in this Scheme Booklet (including in the Independent Expert's Report) may be in the nature of forward looking statements. All forward looking statements in this Scheme Booklet (including in the Independent Expert's Report) reflect views only as at the date of this Scheme Booklet, and generally may be identified by the use of forward looking words such as "believe", "aim", "expect", "anticipate", "intending", "foreseeing", "likely", "should", "planned", "may", "estimate", "potential", or other similar words. Similarly, statements that describe the objectives, plans, goals or expectations of David Jones, Vela Investments or Woolworths are or may be forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industry in which David Jones, Vela Investments and Woolworths operate, as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement. None of David Jones, Vela Investments, Woolworths, their respective subsidiaries or their respective directors, officers and employees, any persons named in this Scheme Booklet with their consent, or any person involved in the preparation of this Scheme Booklet, makes any representation or warranty (express or implied) as to the likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. You are cautioned not to place reliance on any forward looking statement.

Responsibility statements

David Jones has been solely responsible for preparing this Scheme Booklet, and the Woolworths Group and its directors and officers do not assume any responsibility for the accuracy or completeness of this Scheme Booklet, except that:

- Woolworths has been solely responsible for preparing the Woolworths Information. David Jones and its directors and officers do not assume any responsibility for the accuracy or completeness of any Woolworths Information;
- Ernst & Young has prepared the Tax Adviser's Report in relation to the Scheme and takes responsibility for that report. David Jones and its directors and officers do not assume any responsibility for the accuracy or completeness of the Tax Adviser's Report. The Tax Adviser's Report is set out in Section 10; and
- Grant Samuel & Associates Pty Limited has prepared the Independent Expert's Report in relation to the Scheme and takes responsibility for that report. David Jones and its directors and officers do not assume any responsibility for the accuracy or completeness of the Independent Expert's Report, except in the case of David Jones in relation to the information which it has provided to the Independent Expert. The Independent Expert's Report is set out in Annexure B.

Charts, maps and diagrams

Any diagrams, charts, maps, graphs and tables appearing in this Scheme Booklet are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available as at the Last Practicable Date.

References to time

Unless otherwise stipulated, all references to time in this Scheme Booklet are to Sydney time.

Privacy

David Jones, Vela Investments and Woolworths may collect personal information in the process of implementing the Scheme. The type of information that they may collect about you includes your name, contact details and information on your security holding in David Jones and the names of persons appointed by you to act as a proxy, attorney or corporate representative at the Scheme Meeting. The primary purpose of the collection of personal information is to assist David Jones, Vela Investments and Woolworths to conduct the Scheme Meeting and implement the Scheme. Without this information, David Jones, Vela Investments and Woolworths may be hindered in their ability to issue this Scheme Booklet and implement the Scheme. Personal information of the type described above may be disclosed to the David Jones Share Registry, print and mail service providers, authorised securities brokers and the David Jones Group, Vela Investments and Woolworths. If you would like to obtain details of information about you held by David Jones, please contact the David Jones Share Registry.

Date

This Scheme Booklet is dated 22 May 2014.

CONTENTS OF THIS SCHEME BOOKLET

1	Key Dates Relating to the Transaction	3
2	Letter from the Chairman of David Jones	4
3	Introduction	6
4	Key Considerations Relevant to Your Vote	7
5	Frequently Asked Questions	12
6	Overview of the Transaction for David Jones Shareholders	16
7	Information about the David Jones Group	20
8	Information about Vela Investments and Woolworths Group	26
9	Risk Factors	34
10	Tax Considerations	37
11	Information Relating to David Jones Directors	43
12	Additional Information	44
13	Glossary and Interpretation	49

Annexure A – ASX Announcements by David Jones since 25 January 2014 (being the last date for the 26 week period relating to the David Jones Half Year (1H14) Financial Report) **54**

Annexure B – Independent Expert's Report **55**

Annexure C – Scheme Implementation Deed **146**

Annexure D – Scheme of Arrangement **197**

Annexure E – Deed Poll **214**

Annexure F – Notice of Scheme Meeting **225**

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KEY DATES RELATING TO THE TRANSACTION

Event	Date
Woolworths Shareholder Meeting	Tuesday 17 June 2014
Latest time and date for receipt of proxy forms (including proxies lodged online), powers of attorney or certificates of appointment of body corporate representative by the David Jones Share Registry[1] for the Scheme Meeting	10.00am on Saturday 28 June 2014
Time and date for determining eligibility to vote at the Scheme Meeting	7.00pm on Saturday 28 June 2014
The Scheme Meeting to be held at the Wesley Conference Centre, 220 Pitt Street, Sydney	10.00am on Monday 30 June 2014

If the Scheme is agreed to by the requisite majorities of David Jones Shareholders:

Second Court Date (for approval of the Scheme)	Wednesday 2 July 2014
Outcome of Second Court Hearing announced to ASX	Wednesday 2 July 2014
Effective Date (Federal Court order lodged with ASIC and announcement by David Jones to ASX)	Thursday 3 July 2014
David Jones Shares suspended from trading on ASX	Close of trading on Thursday 3 July 2014
Scheme Record Date (for determining entitlements to Scheme Consideration)	Thursday 10 July 2014
Implementation Date (for despatching Scheme Consideration to Scheme Shareholders)	Thursday 17 July 2014
Scheme Consideration will be sent to Scheme Shareholders (by either cheque or electronic funds transfer into the nominated bank accounts used for dividend payments)	Thursday 17 July 2014

All dates in the above timetable are indicative only and are subject to change. The actual timetable will depend on many factors outside the control of David Jones, including approvals from the Federal Court of Australia (New South Wales registry) and other regulatory authorities. Any changes will be announced by David Jones on ASX and published on David Jones' website at http://www.davidjones.com.au/For-Investors/ASX-and-Media-Releases.

[1] The latest time and date for **hand delivery** of proxy forms, powers of attorney or certificates of appointment of body corporate representative will be **5.00pm on Friday 27 June 2014**. However, for simplicity of explanation, elsewhere in this Scheme Booklet, when referring to the latest time and date for receipt of proxy forms (including proxies lodged online), powers of attorney or certificates of appointment of body corporate representative, the relevant time is referred to as being 10.00am on Saturday 28 June 2014.

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LETTER FROM THE CHAIRMAN OF DAVID JONES

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22 May 2014

Dear David Jones Shareholder,

On 9 April 2014, David Jones announced that it had entered into the Scheme Implementation Deed with the South African based retail group Woolworths in relation to a scheme of arrangement between David Jones and the David Jones Shareholders.

Under the Scheme Implementation Deed, if all Conditions Precedent are satisfied or waived (as applicable) and the Scheme proceeds, Woolworths will acquire all of the David Jones Shares outstanding for A$4.00 cash per Share.

You are receiving this Scheme Booklet because you are currently a David Jones Shareholder. So long as you remain a David Jones Shareholder on the Scheme Record Date, which is currently expected to be Thursday 10 July 2014, and the Scheme becomes Effective, you will receive A$4.00 cash for each David Jones Share you hold on the Scheme Record Date. David Jones Shareholders will not pay any brokerage or stamp duty on the transfer of their David Jones Shares under the Scheme.

Your Directors believe that the Scheme provides an opportunity for David Jones Shareholders to realise certain cash proceeds at a significant premium. The Scheme Consideration of A$4.00 per David Jones Share represents:

- a 25.4% premium to the closing price of David Jones Shares of A$3.19 on 8 April 2014, the last trading day prior to the announcement of the Woolworths proposal;
- a 39.4% premium to the closing price of David Jones Shares of A$2.87 on 30 January 2014, the last closing price prior to the Myer proposal becoming public;
- a 26.8% premium to the 3 month volume weighted average price of David Jones Shares up to and including 8 April 2014;
- a multiple of 20.8x the reported FY13 EPS of 19.2 cents per David Jones Share and 23.8x the estimated FY14 EPS of 16.8 cents per David Jones Share based on consensus broker estimates as at 8 April 2014;[2] and
- an implied market capitalisation of A$2,149 million.

Your Directors unanimously recommend that you vote in favour of the Scheme at the upcoming Scheme Meeting on Monday 30 June 2014, in the absence of a Superior Proposal. Subject to that same qualification, your Directors intend to vote all the David Jones Shares held or controlled by them in favour of the Scheme.

In reaching this conclusion, your Directors considered a number of alternatives, including standalone value creation opportunities, realising the value of the freehold properties owned by David Jones, or pursuing a merger with Myer. On 9 April 2014, following the announcement of the Scheme, Myer announced to ASX that it was withdrawing its proposed merger of equals.

The Independent Expert, Grant Samuel & Associates Pty Limited, has assessed the full underlying value of David Jones to be in the range of A$3.73 to A$4.14 per Share, and has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of David Jones Shareholders, in the absence of a Superior Proposal. The Scheme Consideration of A$4.00 per Share is within this range. The reasons why the Independent Expert reached this conclusion are set out in the Independent Expert's Report, a copy of which is included in Annexure B.

[2] FY13 EPS adjusted for the A$6.4m NPAT impact of the Dick Smith transaction. FY14F EPS consensus of 16.8 cents per share as per Bloomberg on 8 April 2014.

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The David Jones Board believes that David Jones is well positioned to deliver growth for David Jones Shareholders into the future. However, the David Jones Board was unanimous in its decision to recommend Woolworths' proposal, in the absence of a Superior Proposal. Your Directors believe that the significant premium and overall terms and conditions of Woolworths' cash offer present an excellent opportunity which realises value for David Jones Shareholders.

The Scheme requires the approval of David Jones Shareholders and the Federal Court of Australia. The Scheme is also subject to certain other Conditions Precedent as described in Section 6.6, including Woolworths Shareholder Approvals.

The reasons to vote in favour of the Scheme Resolution required to implement the Scheme are set out in detail in Section 4.2. There are also reasons why you may choose to vote against the Scheme Resolution required to implement the Scheme, which are set out in Section 4.3.

If the Scheme is not implemented, David Jones will continue as an independent entity listed on ASX and David Jones Shareholders will not receive the Scheme Consideration of A$4.00 per David Jones Share. If the Scheme does not proceed, and no Superior Proposal emerges, your Directors consider that the market price of David Jones Shares is likely to fall.

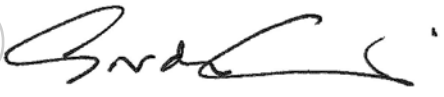
Your vote is important, and I strongly encourage you to vote on this significant transaction. You may vote by attending the Scheme Meeting to be held on Monday 30 June 2014 at the Wesley Conference Centre, 220 Pitt Street, Sydney, commencing at 10.00am, or by appointing a proxy or attorney to attend the Scheme Meeting and vote on your behalf. A Scheme Meeting Proxy Form is provided with this Scheme Booklet. Alternatively, you may lodge a proxy online by logging onto www.investorvote.com.au.

I encourage you to read this Scheme Booklet carefully and in its entirety, as it contains important information that will need to be considered before you vote on the Scheme Resolution required to implement the Scheme. I also encourage you to seek independent legal, financial, taxation or other professional advice before making an investment decision in relation to your David Jones Shares.

If you have any questions about the Scheme, please contact the David Jones Shareholder Information Line on 1300 580 123 (from within Australia) or +61 3 9415 4339 (from outside Australia) Monday to Friday between 9:00am to 5:00pm (Sydney time), or contact your legal, financial, taxation or other professional adviser.

I would also like to take this opportunity to thank you for your continued support of David Jones.

Yours sincerely,



Gordon Cairns
Chairman

INTRODUCTION

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3.1 What is the Transaction?

The Transaction involves Woolworths (through its Australian subsidiary, Vela Investments) acquiring all of the David Jones Shares on issue. The Transaction will be implemented by way of a scheme of arrangement between David Jones and its Shareholders.

If you are a David Jones Shareholder and the Scheme becomes Effective, you will receive the Scheme Consideration of A$4.00 cash for each Scheme Share.

In order for the Scheme to proceed, the Scheme Resolution approving the Scheme must be passed by the requisite majorities of David Jones Shareholders at the Scheme Meeting to be held on Monday 30 June 2014. The Scheme is also subject to the satisfaction or waiver of various Conditions Precedent (as applicable), as summarised in Section 6.6.

3.2 What should I do?

You should read this Booklet carefully in its entirety, including the reasons to vote in favour or against the Scheme (as set out in Section 4), before making any decision on how to vote on the Scheme Resolution.

Answers to various frequently asked questions about the Transaction are set out in Section 5. If you have any additional questions about this Scheme Booklet or the Transaction / Scheme, please contact the David Jones Shareholder Information Line on 1300 580 123 (from within Australia) or +61 3 9415 4339 (from outside Australia) Monday to Friday between 9:00am to 5:00pm (Sydney time), or contact your legal, financial, taxation or other professional adviser.

3.3 What is the Directors' recommendation?

Your Directors unanimously recommend that you vote in favour of the Scheme at the upcoming Scheme Meeting on Monday 30 June 2014, in the absence of a Superior Proposal.

The Directors intend to vote all of the David Jones Shares held or controlled by them in favour of the Scheme Resolution, in the absence of a Superior Proposal.

The Directors believe that the reasons for David Jones Shareholders to vote in favour of the Scheme Resolution outweigh the reasons to vote against it, in the absence of a Superior Proposal. These reasons and other relevant considerations are set out in Section 4.

The Directors note that the Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of David Jones Shareholders, in the absence of a Superior Proposal. You should also read the Independent Expert's Report which is contained in Annexure B.

3.4 Am I entitled to vote?

If you are registered as a David Jones Shareholder on the Share Register at 7:00pm on Saturday 28 June 2014, you will be entitled to attend and vote at the Scheme Meeting to be held on Monday 30 June 2014.

3.5 How do I vote on the Scheme?

You can vote on the Scheme Resolution at the upcoming Scheme Meeting on Monday 30 June 2014 in any of the following ways.

You can vote:

- in person, by attending the Scheme Meeting at the Wesley Conference Centre, 220 Pitt Street, Sydney at 10:00am on Monday 30 June 2014;
- by appointing a proxy or attorney to attend the Scheme Meeting and vote on your behalf:
  - by lodging a proxy online via www.investorvote.com.au;
  - by mailing the enclosed Scheme Meeting Proxy Form to Computershare Investors Services Pty Limited, GPO Box 242 Melbourne Victoria 3001;
  - by faxing the enclosed Scheme Meeting Proxy Form to 1800 783 447 (within Australia) and +61 3 9473 2555 (outside Australia); or
  - by hand delivering[3] the enclosed Scheme Meeting Proxy Form to the David Jones Share Registry at Level 4, 60 Carrington Street, Sydney NSW 2000.

To be valid, a proxy must be received by the David Jones Share Registry by 10.00am (Sydney time) on Saturday 28 June 2014, other than such proxies delivered by hand which must be received by the David Jones Share Registry by 5.00pm (Sydney time) on Friday 27 June 2014.

[3] Please note that hand deliveries may only be made Monday to Friday between the hours of 9.00am and 5.00pm (Sydney time).

KEY CONSIDERATIONS RELEVANT TO YOUR VOTE

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4.1 Summary of reasons why you might vote for and against the Scheme

(a) Reasons to vote in favour of the Scheme

- ✔ Your Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal
- ✔ The Independent Expert has concluded the Scheme is fair and reasonable and, therefore, is in the best interests of Shareholders, in the absence of a Superior Proposal
- ✔ A$4.00 cash represents a significant premium for your David Jones Shares
- ✔ The A$4.00 cash per David Jones Share payable under the Scheme would provide you with the certainty of cash for your David Jones Shares
- ✔ No Superior Proposal has emerged as at the date of this Scheme Booklet
- ✔ If the Scheme does not proceed and no Superior Proposal emerges, the David Jones Share price is likely to fall
- ✔ If the Scheme does not proceed, and no Superior Proposal emerges, David Jones Shareholders will continue to be subject to the specific risks associated with David Jones' business and other general risks
- ✔ No brokerage or stamp duty is payable on the transfer of your David Jones Shares under the Scheme

Reasons to vote in favour of the Scheme are discussed in more detail in Section 4.2.

(b) Reasons to vote against the Scheme

- ✗ You may disagree with the recommendation of your Directors and the conclusions of the Independent Expert
- ✗ If the Scheme proceeds, you will no longer be a David Jones Shareholder and you will not participate in any potential upside that may result from being a David Jones Shareholder
- ✗ You may consider that there is potential for a Superior Proposal to emerge
- ✗ The tax consequences of the Scheme for you may not be suitable to your financial position

Reasons to vote against the Scheme are discussed in more detail in Section 4.3.

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4.2 Reasons to vote in favour of the Scheme

(a) Your Directors unanimously recommend that you vote in favour of the Scheme Resolution, in the absence of a Superior Proposal

Your Directors unanimously recommend that, in the absence of a Superior Proposal, you vote in favour of the Scheme Resolution required to implement the Scheme at the Scheme Meeting to be held on Monday 30 June 2014.

In reaching their recommendation, your Directors have assessed the Scheme having regard to the reasons to vote in favour of, or against, the Scheme, as set out in this Scheme Booklet.

In the absence of a Superior Proposal, each Director intends to vote all the David Jones Shares held or controlled by them in favour of the Scheme. The interests of David Jones Directors are set out in Section 11.

Your Directors believe that the Scheme Consideration is compelling and provides an opportunity for you to realise a cash value for your David Jones Shares at a significant premium to both the market price of David Jones Shares prior to the announcement of Woolworths' proposal and the market price prior to the announcement of the Myer proposal.[4]

(b) The Independent Expert has concluded the Scheme is fair and reasonable and, therefore, is in the best interests of Shareholders, in the absence of a Superior Proposal

Your Directors appointed Grant Samuel & Associates Pty Limited as Independent Expert to prepare an Independent Expert's Report providing an opinion as to whether the Scheme is fair and reasonable and in the best interests of David Jones Shareholders.

The Independent Expert has assessed the full underlying value of David Jones (including a premium for control) to be in the range of A$3.73 and A$4.14 per David Jones Share. The Independent Expert states that *"in particular, the value:*

- *allows for the value inherent in David Jones' ownership of the freehold of its four flagship store sites in the CBDs of Sydney and Melbourne, including the potential value of air rights;*
- *allows for the significant seasonal variations in working capital requirements (and therefore net debt) across the year; and*
- *takes account of the potential for synergies that might be available to acquirers."*[5]

The Scheme Consideration of A$4.00 per David Jones Share is within this range.

Accordingly, the Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of David Jones Shareholders, in the absence of a Superior Proposal.

The reasons why the Independent Expert reached this conclusion are set out in the Independent Expert's Report, a copy of which is included in Annexure B.

You should read the Independent Expert's Report in its entirety as part of your assessment of the Scheme and before voting on the Scheme Resolution.

(c) A$4.00 cash represents a significant premium for your David Jones Shares

The Scheme Consideration of A$4.00 per David Jones Share, which will be paid to Scheme Shareholders if the Scheme is approved and implemented, represents a significant premium to David Jones' historical trading prices prior to the announcement of the Woolworths proposal on 9 April 2014, as summarised in the figure below.

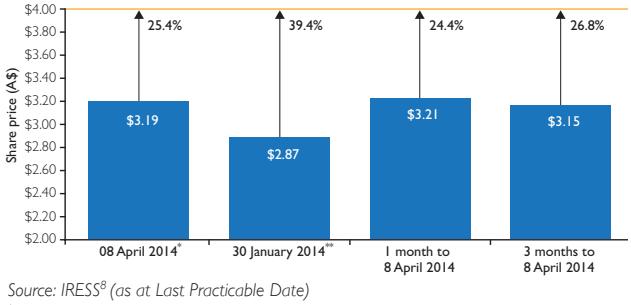
The Scheme Consideration of A$4.00 per David Jones Share represents a multiple of 20.8x the reported FY13 EPS of 19.2 cents per David Jones Share and 23.8x the estimated FY14 EPS of 16.8 cents per David Jones Share based on consensus broker estimates as at 8 April 2014,[6] and:

- a 25.4% premium to the closing price of David Jones Shares of A$3.19 on 8 April 2014, the last trading day prior to the announcement of the Woolworths proposal;
- a 39.4% premium to the closing price of David Jones Shares of A$2.87 on 30 January 2014, the last closing price prior to the Myer proposal becoming public;
- a 24.4% premium to the 1 month volume weighted average price of David Jones Shares up to and including 8 April 2014 of A$3.21; and
- a 26.8% premium to the 3 month volume weighted average price of David Jones Shares up to and including 8 April 2014 of A$3.15.

The Independent Expert has expressed the view that:

"In the case of David Jones, the premiums implied by the Woolworths Offer over the 8 April 2014 share price (circa 25%) are reasonable but towards the lower end of the standard range. However, in Grant Samuel's opinion, the premiums based on prices up to 30 January 2014 are the more relevant as these are undisturbed prices and are a better reflection of where David Jones shares would trade in the absence of a takeover offer or any speculation as to one. On this basis, the Woolworths Offer represents very substantial premiums for control (circa 35 – 40%)."[7]

Comparison of cash payment of A$4.00 per David Jones Share to historical trading prices of David Jones Shares



Source: IRESS[8] (as at Last Practicable Date)

* Last trading day prior to announcement of the Woolworths proposal.

** Last closing price prior to the Myer proposal becoming public.

[4] On 30 January 2014, David Jones announced to ASX that on 28 October 2013, it received an invitation from Myer Holdings Limited ABN 14 119 085 602 on a confidential, conditional, non-binding and indicative basis to engage in discussions to investigate the potential for David Jones to propose to its shareholders a scheme of arrangement under which their David Jones shares would be acquired by Myer in exchange for Myer shares at a zero premium exchange ratio (then equivalent to 1.06 shares in Myer for each David Jones share, based on the respective 12 month VWAPs at that time). On 9 April 2014, following the announcement of the Scheme, Myer announced to ASX that it was withdrawing its proposed merger of equals.

[5] Independent Expert's Report, page 60.

[6] See note 2.

[7] Independent Expert's Report, page 62 – each capitalised term as defined in the Independent Expert's Report.

[8] This Scheme Booklet contains various references to trading data prepared by IRESS Limited (ACN 060 313 359) who has not consented to such use of references to that trading data in this Scheme Booklet.

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(d) The A$4.00 cash per David Jones Share payable under the Scheme would provide you with the certainty of cash for your David Jones Shares

The offer from Woolworths is a 100% cash offer. If implemented, the Scheme Consideration of A$4.00 per David Jones Share provides a high degree of certainty of value and timing.

Specifically, if all the Conditions Precedent for the Scheme are satisfied or waived, as applicable, David Jones Shareholders will receive A$4.00 in cash for each David Jones Share held by them as at the Scheme Record Date (currently expected to be Thursday 10 July 2014), to be paid on or about the Implementation Date, which is currently expected to be Thursday 17 July 2014.

In contrast, if the Scheme does not proceed, the amount which David Jones Shareholders will be able to realise for their investment in David Jones Shares will necessarily be uncertain. The Scheme removes this uncertainty for Scheme Shareholders. For details of risks relating to an investment in David Jones Shares, see Section 9.

(e) No Superior Proposal has emerged as at the date of this Scheme Booklet

Since the announcement of the Scheme to ASX by David Jones on 9 April 2014 and up to the date of this Scheme Booklet, no Superior Proposal has emerged and your Directors are not aware of any Superior Proposal that is likely to emerge.

On 9 April 2014, following the announcement of the Scheme, Myer announced to ASX that it was withdrawing its proposed merger of equals.

(f) If the Scheme does not proceed, and no Superior Proposal emerges, the David Jones Share price is likely to fall

If the Scheme is not implemented, and in the absence of a Superior Proposal, David Jones Shares are likely to trade below the price at which they have traded since Woolworths' proposal was announced on 9 April 2014.

Since the day prior to the announcement of Woolworths' proposal on 9 April 2014, the David Jones Share price has risen 23.8% up to A$3.95 on 20 May 2014, being the Last Practicable Date.

In addition, the future trading price of David Jones Shares will continue to be subject to any market volatility versus the certain value of the cash payment of A$4.00 (being the Scheme Consideration) available under the Scheme.

In this regard, the Independent Expert has stated that *"assuming there is also no speculation as to an offer and based on trading in David Jones shares prior to the Woolworths Offer, it is likely that, under current market conditions, David Jones shares would trade at prices well below $4.00."*[9]

David Jones Share price performance



Source: IRESS[10] (as at Last Practicable Date)

(g) If the Scheme does not proceed, and no Superior Proposal emerges, David Jones Shareholders will continue to be subject to the specific risks associated with David Jones' business and other general risks

If the Scheme does not proceed, the amount which David Jones Shareholders will be able to realise for the David Jones Shares in terms of price and future dividends, will necessarily be uncertain and subject to a number of risks outlined in Section 9. Among other things, this will be subject to the performance of David Jones' business from time to time (in particular, the uncertainties associated with David Jones' outlook as described in Section 7.7), general economic conditions and movements in the share market.

(h) No brokerage or stamp duty is payable on the transfer of your David Jones Shares under the Scheme

You should not incur any brokerage or stamp duty on the transfer of your David Jones Shares to Woolworths pursuant to the Scheme.

4.3 Reasons to vote against the Scheme

(a) You may disagree with the recommendation of your Directors and the conclusions of the Independent Expert

You may disagree with the recommendation of your Directors, who have unanimously recommended that David Jones Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal.

In addition, you may disagree with the conclusion of the Independent Expert, who has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of David Jones Shareholders, in the absence of a Superior Proposal.

(b) If the Scheme proceeds, you will no longer be a David Jones Shareholder and you will not participate in any potential upside that may result from being a David Jones Shareholder

If the Scheme is approved and implemented, you will cease to be a David Jones Shareholder. As such, you will no longer be able to participate in David Jones' future financial performance or the future prospects of its ongoing business, further details of which are set out in Section 7.7. However, as with all investments in securities, there can be no guarantee as to David Jones' future performance.

[9] Independent Expert's Report, page 62.

[10] This Scheme Booklet contains various references to trading data prepared by IRESS Limited (ACN 060 313 359) who has not consented to such use of references to that trading data in this Scheme Booklet.

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If the Scheme is approved and implemented, David Jones will be removed from the official list of the ASX. Following delisting, investors will no longer be able to acquire or trade in David Jones Shares.

(c) You may consider that there is potential for a Superior Proposal to emerge

You may consider that there is potential for a Superior Proposal for David Jones Shares to emerge in the foreseeable future. However, for the reasons noted below, your Directors consider that the possibility of a Superior Proposal emerging in the foreseeable future is low:

- since the announcement of Woolworths' proposal by the David Jones Board on 9 April 2014, no Superior Proposal has emerged; and
- since the announcement of Woolworths' proposal by the David Jones Board on 9 April 2014, no David Jones Director has received any approaches which would cause him or her to believe that a Superior Proposal is likely to emerge.

(d) The tax consequences of the Scheme for you may not be suitable to your financial position

If the Scheme is approved and implemented, it will potentially result in taxation consequences (including CGT) for David Jones Shareholders, which will arise earlier than may otherwise have been the case.

You should read the Tax Adviser's Report set out in Section 10 which provides an overview of the Australian taxation consequences for Scheme Shareholders, and also seek professional taxation advice with respect to your individual tax situation.

4.4 Other considerations

(a) The Scheme may proceed even if you do not vote at the Scheme Meeting or if you vote against the Scheme Resolution

The Scheme will be implemented if the Scheme Resolution is duly passed by the required majorities of David Jones Shareholders, all other Conditions Precedent are satisfied or waived (as applicable) and the Scheme is approved by the Federal Court, regardless of whether you vote against the Scheme Resolution or do not vote at the Scheme Meeting on Monday 30 June 2014.

If the Scheme is approved and implemented, your David Jones Shares will be transferred to Woolworths and you will receive the Scheme Consideration of A$4.00 cash per David Jones Share.

(b) Conditions Precedent

The Scheme is subject to a number of Conditions Precedent, which are summarised in Section 6.6.

If these Conditions Precedent are not satisfied or waived (as applicable) the Scheme will not proceed (even if it has been approved by David Jones Shareholders) and David Jones Shareholders will not receive the Scheme Consideration as contemplated by the Scheme.

As at the time of the publication of this Scheme Booklet, the Scheme remained conditional on approval by Woolworths shareholders as well as certain other Conditions Precedent listed in Section 6.6.

The Woolworths Shareholder Meeting to vote on the Woolworths Shareholder Resolutions is expected to be held in South Africa on 17 June 2014. David Jones Shareholders will be informed of the outcome of the Woolworths Shareholder Meeting via ASX shortly after this time.

(c) Break fee

A break fee of A$22,000,000 (exclusive of GST) is payable by David Jones to Woolworths in certain circumstances including in relation to certain specified breaches of the Scheme Implementation Deed, the announcement and completion of a Competing Proposal involving the acquisition of all or a substantial part of David Jones' business or an asset representing more than 50% of total assets or a change of control of David Jones, or a change in recommendation by a majority of David Jones Directors. A number of these circumstances are qualified by the emergence of a Superior Proposal and the conclusion of the Independent Expert.

A break fee will not be payable because David Jones Shareholders do not vote in favour of the Scheme.

Please refer to Section 12.2(e) for a full summary of this break fee obligation.

(d) Cost reimbursement

Woolworths must pay to David Jones the amount of the costs reasonably incurred by David Jones, capped at A$5,000,000 (exclusive of GST), if Woolworths Shareholder Approvals are not received (and this Condition Precedent is not waived by Woolworths), or the Board of Woolworths fails to recommend (or having recommended, subsequently withdraws or qualifies their recommendation) each of the Woolworths Shareholder Resolutions.

Please refer to Section 12.2(f) for further information on this cost reimbursement.

4.5 What are your options and what should you do?

Vote in favour of the Scheme	**This is the course of action unanimously recommended by your Directors, in the absence of a Superior Proposal.** To follow your Directors' unanimous recommendation, you should vote in favour of the Scheme at the Scheme Meeting on Monday 30 June 2014. For a summary of how to vote on the Scheme, please refer to Section 3.5 or Section 6.10 and the Notice of Scheme Meeting contained in Annexure F.
Vote against the Scheme	If, despite your Directors' unanimous recommendation, you do not support the Scheme, you may vote against the Scheme at the Scheme Meeting on Monday 30 June 2014. However, if all the Conditions Precedent for the Scheme are satisfied or waived (as applicable), the Scheme will bind all David Jones Shareholders, including those who vote against the Scheme Resolution at the Scheme Meeting on Monday 30 June 2014 and those who do not vote at all.
Sell your David Jones Shares on market	The existence of the Scheme does not preclude you from selling some or all of your David Jones Shares on market for cash, if you wish, provided you do so before close of trading in David Jones Shares on ASX on the Effective Date (currently expected to be Thursday 3 July 2014), when trading in David Jones Shares will end. If you are considering selling some or all of your David Jones Shares: • you should have regard to the prevailing trading prices of David Jones Shares and compare those to the Scheme Consideration. You may ascertain the current trading prices of David Jones Shares through the ASX website (www.asx.com.au). • you should contact your stockbroker for information on how to effect that sale. David Jones Shareholders who sell some or all of their David Jones Shares on ASX: • may receive payment (which may vary from the Scheme Consideration) for the sale of their Shares sooner than they would receive the Scheme Consideration under the Scheme; • may incur a brokerage charge; • only in respect of those David Jones Shares they have sold (if they have sold some but not all of their David Jones Shares), will not be able to participate in the Scheme or a Superior Proposal, if one emerges; and • may be liable for CGT on the disposal of their David Jones Shares (as you also may under the Scheme. See Tax Adviser's Report set out in Section 10).
Do nothing	David Jones Shareholders who elect to not vote at the Scheme Meeting on Monday 30 June 2014 or not sell their David Jones Shares will: • if the Scheme is implemented – have their David Jones Shares compulsorily transferred to Woolworths, by operation of the Scheme and receive the Scheme Consideration of A$4.00 per David Jones Share; or • if the Scheme is not implemented – retain their David Jones Shares.

Further Information

The information in this Section 4 is a summary only. Full details of the Scheme are set out in the remainder of this Scheme Booklet. Please read it carefully.

Your Directors recommend that you consult your legal, financial, taxation or other professional adviser concerning the impact your decision may have on your own circumstances.

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FREQUENTLY ASKED QUESTIONS

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This Section 5 answers some frequently asked questions about the Scheme. It is not intended to address all relevant issues for David Jones Shareholders. This Section 5 should be read together with all other Sections of this Scheme Booklet.

QUESTION	ANSWER	MORE INFORMATION
QUESTIONS ABOUT THE SCHEME AND SCHEME CONSIDERATION		
What is the Scheme?	The Scheme is a scheme of arrangement between David Jones and Scheme Shareholders. If the Scheme becomes Effective, Vela Investments (a wholly owned subsidiary of Woolworths) will acquire all of the David Jones Shares on issue for A$4.00 cash per Share, and David Jones will become a wholly owned subsidiary of Vela Investments and, ultimately, Woolworths.	Section 6 contains a summary of the Scheme and a copy of the Scheme is contained in Annexure D.
Am I entitled to receive the Scheme Consideration?	David Jones Shareholders as at the Scheme Record Date (currently expected to be Thursday 10 July 2014) are Scheme Shareholders and are entitled to receive the Scheme Consideration for each Scheme Share they hold.	
What will I be entitled to receive if the Scheme becomes Effective?	If the Scheme becomes Effective, Scheme Shareholders will be entitled to receive A$4.00 cash on the Implementation Date (currently expected to be Thursday 17 July 2014) for each Scheme Share held by them on the Scheme Record Date (currently expected to be Thursday 10 July 2014).	Section 6.2 provides further information in relation to the Scheme Consideration.
What are the risks associated with an investment in David Jones if the Scheme does not become Effective?	If the Scheme does not become Effective, and no Superior Proposal emerges, the David Jones Share price is likely to fall. In addition, if the Scheme does not become Effective and no Superior Proposal emerges, David Jones Shareholders will continue to be subject to the specific risks associated with David Jones' business and other general risks.	Section 9 contains further information on the risk factors associated with an investment in David Jones.
When and how will I receive my Scheme Consideration?	If the Scheme becomes Effective, the Scheme Consideration will be sent to Scheme Shareholders on the Implementation Date (currently expected to be Thursday 17 July 2014). Scheme Shareholders who have validly registered their bank account details with the David Jones Share Registry (by 7:00pm (Sydney time) on the Scheme Record Date) will have their Scheme Consideration sent directly to their bank account. Scheme Shareholders who have not registered their bank account details (by 7:00pm (Sydney time) on the Scheme Record Date) with the David Jones Share Registry will have their Scheme Consideration sent by cheque to the address shown on the Share Register.	See clause 5 of the Scheme contained in Annexure D.
What is required for the Scheme to become Effective?	The Scheme will become Effective if: 1 the Scheme is agreed to by the requisite majorities of David Jones Shareholders at the Scheme Meeting to be held on Monday 30 June 2014; 2 all of the Conditions Precedent are satisfied or (if permitted) waived (as applicable); and 3 the Federal Court approves the Scheme at the Second Court Hearing.	Section 6.9 contains further information on the Scheme approval requirements.
QUESTIONS ABOUT THE CONDITIONS TO BE SATISFIED		
What are the Woolworths Shareholder Approvals?	Woolworths Shareholder Approvals are required under the official listings requirements of the Johannesburg Stock Exchange (**JSE Listings Requirements**) due to the size of the Transaction and the funding structure that Woolworths is adopting. In order for the Transaction to proceed, Woolworths shareholders must approve: • the Transaction by the required majority, being an ordinary majority of 50% plus one vote; and • resolutions relating to the implementation of the Woolworths Rights Offer by the required majority, being a special majority of 75% plus one vote, of the total number of voting rights exercised by shareholders of Woolworths present and voting (either in person or by proxy) at the Woolworths Shareholder Meeting (the **Woolworths Shareholder Approvals**). It is expected that Woolworths Shareholder Approvals will be sought on 17 June 2014, prior to the Scheme Meeting on Monday 30 June 2014, so the satisfaction or otherwise of this condition will be known to David Jones Shareholders before they vote on the Scheme.	

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QUESTION	ANSWER	MORE INFORMATION
Are there any conditions to the Scheme?	There are a number of Conditions Precedent that will need to be satisfied or waived (as applicable) before the Scheme can become Effective. In summary, as at the date of this Scheme Booklet, the outstanding Conditions Precedent include: • Woolworths Shareholder Approvals; • approval by the Federal Court; • approval by the David Jones Shareholders by the requisite majorities; • no Prescribed Occurrences occurring; • no Material Adverse Change occurring; • no Force Majeure Event occurring; and • no regulatory restraints. David Jones intends to announce on ASX the satisfaction (or waiver) of the Conditions Precedent to the Scheme.	Section 6.6 and Section 12.8 contain further information on the Conditions Precedent to the Scheme.
QUESTIONS ABOUT YOUR DIRECTORS' RECOMMENDATIONS AND INTENTIONS, AND REASONS TO VOTE FOR OR AGAINST THE SCHEME		
What do your Directors recommend?	Your Directors unanimously recommend that eligible David Jones Shareholders **vote in favour** of the Scheme, in the absence of a Superior Proposal. Your Directors believe that the reasons for David Jones Shareholders to vote in favour of the Scheme outweigh the reasons to vote against it.	
What are the intentions of your Directors?	Each Director intends to vote in favour of the Scheme at the Scheme Meeting on Monday 30 June 2014, in relation to the David Jones Shares held or controlled by them, in the absence of a Superior Proposal.	Details of the Relevant Interests of each Director in David Jones Shares are set out in Section 11.
What is the opinion of the Independent Expert?	Grant Samuel & Associates Pty Limited, as Independent Expert, concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of David Jones Shareholders, in the absence of a Superior Proposal.	Annexure B contains the Independent Expert's Report.
Why you should vote in favour of the Scheme	Reasons why you should vote in favour of the Scheme include: • your Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal; • the Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of David Jones Shareholders, in the absence of a Superior Proposal; • A$4.00 cash represents a significant premium for your David Jones Shares; • the Scheme would provide you with the certainty of a cash return on your David Jones Shares; • no Superior Proposal has emerged as at the date of this Scheme Booklet; • if the Scheme does not become Effective, and no Superior Proposal emerges, the David Jones Share price is likely to fall; • if the Scheme does not become Effective, and no Superior Proposal emerges, David Jones Shareholders will continue to be subject to the specific risks associated with David Jones' business and other general risks; and • no brokerage or stamp duty is payable on the transfer of your David Jones Shares under the Scheme.	Section 4.2 contains further information on why you should vote in favour of the Scheme.
Why you may consider voting against the Scheme	Reasons why you may consider voting against the Scheme include: • you may disagree with the recommendation of your Directors and the conclusions of the Independent Expert; • if the Scheme proceeds, you will no longer be a David Jones Shareholder and you will not participate in any potential upside that may result from being a David Jones Shareholder; • you may consider that there is potential for a Superior Proposal to emerge; and • the tax consequences of the Scheme for you may not be suitable to your financial position.	Section 4.3 contains further information on why you may consider voting against the Scheme.

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QUESTION	ANSWER	MORE INFORMATION
QUESTIONS ABOUT THE SCHEME MEETING AND VOTING AT THE SCHEME MEETING		
When and where will the Scheme Meeting be held?	The Scheme Meeting will be held on Monday 30 June 2014 at the Wesley Conference Centre, 220 Pitt Street Sydney commencing at 10.00am (Sydney time).	The Notice of Scheme Meeting contained in Annexure F sets out further information on the Scheme Meeting.
What is the David Jones Shareholder approval threshold?	In order to become Effective, the Scheme must be agreed to by: • a majority in number (more than 50%) of David Jones Shareholders present and voting at the Scheme Meeting on Monday 30 June 2014;[11] and • at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting by David Jones Shareholders present and voting at the Scheme Meeting on Monday 30 June 2014. Even if the Scheme is agreed to by David Jones Shareholders at the Scheme Meeting on Monday 30 June 2014, the Scheme is still subject to the approval of the Federal Court (as well as other Conditions Precedent outlined in Section 6.6).	Section 6.9 and the Notice of Scheme Meeting contained in Annexure F sets out further information on the Scheme approval requirements.
Am I entitled to vote at the Scheme Meeting?	If you are registered as a David Jones Shareholder on the Share Register at 7:00pm on Saturday 28 June 2014, you will be entitled to attend and vote at the Scheme Meeting on Monday 30 June 2014.	The Notice of Scheme Meeting contained in Annexure F sets out further information on your entitlement to vote.
Should I vote?	Voting is not compulsory. However, your Directors encourage all eligible David Jones Shareholders to vote at the Scheme Meeting on Monday 30 June 2014.	Sections 6.3 and 6.4 provide further information on your Directors' recommendation and voting intentions.
How can I vote if I can't attend the Scheme Meeting?	If you would like to vote but cannot attend the Scheme Meeting on Monday 30 June 2014 in person, you can vote by appointing a proxy or attorney (including lodging your proxy online via www.investorvote.com.au) to attend and vote on your behalf. You may also vote by corporate representative if that option is applicable to you.	The Notice of Scheme Meeting contained in Annexure F sets out further detail on how to vote at the Scheme Meeting.
When will the results of the Scheme Meeting be known?	The results of the Scheme Meeting to be held on Monday 30 June 2014 are expected to be available shortly after the conclusion of the Scheme Meeting and will be announced to ASX (www.asx.com.au) and on the David Jones website (http://www.davidjones.com.au/For-Investors/ASX-and-Media-Releases) once available. Even if the Scheme is agreed to by the requisite majorities, the Scheme is still subject to the approval of the Federal Court.	
What happens if the Federal Court does not approve the Scheme or the Scheme does not otherwise proceed?	If the Scheme is not agreed to at the Scheme Meeting on Monday 30 June 2014, or is agreed to at the Scheme Meeting but is not approved by the Federal Court, then the Scheme will not be Effective and will not be implemented. In such a scenario, Scheme Shareholders will not receive the Scheme Consideration but will retain their David Jones Shares and be exposed to the risks set out in Section 9. In these circumstances, David Jones will, in the absence of a Superior Proposal, continue to operate as a standalone company listed on ASX.	Section 6.7 contains further information on the implications for David Jones Shareholders if the Scheme does not proceed.
What happens to my David Jones Shares if I do not vote, or if I vote against the Scheme, and the Scheme becomes Effective?	If you do not vote, or vote against the Scheme, and the Scheme becomes Effective, any Scheme Shares held by you on the Scheme Record Date (currently expected to be Thursday 10 July 2014) will be transferred to Vela Investments and you will be sent the Scheme Consideration, notwithstanding that you may not have voted or voted against the Scheme.	Section 6.8 contains further information on the voting options of David Jones Shareholders.

[11] It should be noted that the Federal Court has the power to waive this requirement.

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QUESTION	ANSWER	MORE INFORMATION
OTHER QUESTIONS		
What will happen to David Jones if the Scheme proceeds?	If the Scheme becomes Effective, David Jones will be delisted from ASX and become a wholly owned subsidiary of Vela Investments, and ultimately, a subsidiary of Woolworths.	Section 8 sets out the Woolworths Group's current intentions for David Jones if the Scheme becomes Effective.
What happens if a Competing Proposal is received?	If a Competing Proposal is received, your Directors will carefully consider the proposal.	
Can I sell my David Jones Shares now?	You can sell your David Jones Shares on market at any time before the close of trading on ASX on the Effective Date at the then prevailing market price (which may vary from the Scheme Consideration). David Jones intends to apply to ASX for David Jones Shares to be suspended from official quotation on ASX from close of trading on the Effective Date (which is currently expected to be Thursday 3 July 2014). You will not be able to sell your David Jones Shares on market after this time.	Section 6.8 contains a summary of the choices available to David Jones Shareholders.
When could David Jones be required to pay a break fee to Woolworths?	Under the Scheme Implementation Deed, David Jones must pay a break fee to Vela Investments if certain events occur, including in relation to certain breaches of the Scheme Implementation Deed, the announcement and (within 12 months thereafter) completion of a Competing Proposal involving the acquisition of all or a substantial part of David Jones' business or of an asset representing more than 50% of total assets or a change of control of David Jones, or a change in recommendation by the David Jones Board.	Sections 4.4(c) and 12.2(e) contain further information about the triggers for, and amount of, such potential break fee.
When could Woolworths be required to reimburse David Jones' costs in relation to the Scheme?	Vela Investments must pay to David Jones the amount of the costs reasonably incurred by David Jones, capped at A$5,000,000 (exclusive of GST), if the Woolworths Shareholder Approvals are not received (or waived by Woolworths), or the Board of Woolworths fails to recommend each of the Woolworths Shareholder Resolutions.	Please refer to Section 12.2(f) for further information on this cost reimbursement.
QUESTIONS ABOUT IMPLEMENTATION OF THE SCHEME		
Will I have to pay brokerage or stamp duty?	You will not have to pay brokerage or stamp duty on the transfer of your David Jones Shares under the Scheme.	
Do I have to sign anything to transfer my David Jones Shares?	No. If the Scheme becomes Effective, David Jones will automatically have authority to sign a transfer on your behalf, and the Scheme Consideration will then be paid to you. However, you should be aware that under the Scheme, you are deemed to have warranted to Woolworths and David Jones that (in summary): • all your Scheme Shares which are transferred to Woolworths under the Scheme are fully paid and free from all encumbrances on the date of transfer; and • you have full power and capacity to transfer your Scheme Shares to Woolworths.	See Section 6.17 for further information.
What are the taxation implications of the Scheme?	The taxation implications of the Scheme will depend on your personal facts and circumstances. Section 10 contains the Tax Adviser's Report which provides an overview of the Australian taxation consequences for Scheme Shareholders. You should seek professional taxation advice with respect to your individual tax situation.	Please refer to Section 10.
When will the Scheme become Effective?	Subject to satisfaction or waiver (as applicable) of the Conditions Precedent, the Scheme will become Effective on the Effective Date (currently expected to be Thursday 3 July 2014) and will be implemented on the Implementation Date (currently expected to be Thursday 17 July 2014).	Section 6.12 contains further information on when the Scheme will become Effective.
FURTHER QUESTIONS?		
Where can I get further information?	For further information, you can call the David Jones Shareholder Information Line on 1300 580 123 (for callers within Australia) or +61 3 9415 4339 (for callers outside Australia) Monday to Friday between 9.00am to 5.00pm (Sydney time). If you are in doubt about anything in this Scheme Booklet, please contact your financial, legal, taxation or other professional adviser.	

OVERVIEW OF THE TRANSACTION FOR DAVID JONES SHAREHOLDERS

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6.1 Background

On 9 April 2014, David Jones announced that it had entered into the Scheme Implementation Deed in relation to a proposal for the acquisition of all the David Jones Shares by Vela Investments, a subsidiary of Woolworths, by way of a scheme of arrangement.

If the Scheme becomes Effective, David Jones will be delisted from ASX and become a subsidiary of Vela Investments and, ultimately, a subsidiary of Woolworths.

Woolworths is unrelated to the ASX-listed Woolworths Limited ABN 88 000 014 675.

This Section 6 contains an overview of the Scheme.

A summary of the Scheme Implementation Deed is included in Section 12.2 and a copy of the Scheme Implementation Deed is contained in Annexure C.

6.2 What you will receive – Scheme Consideration

If the Scheme becomes Effective, Scheme Shareholders will receive the cash amount of A$4.00 cash for each Scheme Share.

The Scheme Consideration will be sent to Scheme Shareholders on the Implementation Date, which is currently expected to be Thursday 17 July 2014. Scheme Shareholders who have validly registered their bank account details with the David Jones Share Registry (by 7:00pm (Sydney time) on the Scheme Record Date) will have their Scheme Consideration sent directly to their bank account. Scheme Shareholders who have not registered their bank account details with David Jones Share Registry (by 7:00pm (Sydney time) on the Scheme Record Date) will have their Scheme Consideration sent by cheque to the address shown on the Share Register. See clause 5 of the Scheme contained in Annexure D for further details.

6.3 Your Directors' recommendation

Your Directors unanimously recommend that eligible David Jones Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal.

Your Directors believe that the reasons for David Jones Shareholders to vote in favour of the Scheme outweigh the reasons to vote against the Scheme. See Section 4 for key reasons to vote in favour of the Scheme and other relevant considerations for David Jones Shareholders.

In considering whether to vote in favour of the Scheme, your Directors encourage you to:

- carefully read all of this Scheme Booklet (including the Independent Expert's Report);
- consider the choices available to you as outlined in Section 6.8 (and in more detail in Section 4.5);
- have regard to your individual risk profile, portfolio strategy, taxation position and financial circumstances; and
- obtain financial advice from your broker or financial adviser on the Scheme and obtain taxation advice on the effect of the Scheme becoming Effective.

Each Director's interests are disclosed in Section 11.

6.4 Voting intentions of your Directors

Each Director intends to vote in favour of the Scheme at the Scheme Meeting to be held on Monday 30 June 2014 in relation to the David Jones Shares held or controlled by them, in the absence of a Superior Proposal.

Details of the Relevant Interests of each Director in David Jones Shares and Performance Rights are set out in Section 11.

6.5 Independent Expert's conclusion

David Jones commissioned the Independent Expert to prepare a report on whether the Scheme is, in the Independent Expert's opinion, fair and reasonable and, therefore, is in the best interests of David Jones Shareholders.

The Independent Expert has assessed the full underlying value of David Jones (including a premium for control) to be in the range of A$3.73 and A$4.14 per David Jones Share. The Scheme Consideration is within this range. Accordingly, the Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of David Jones Shareholders, in the absence of a Superior Proposal.

The Independent Expert's Report is contained in Annexure B. Your Directors encourage David Jones Shareholders to read the Independent Expert's Report in full before deciding whether to vote in favour of the Scheme.

6.6 Conditions of the Scheme

The implementation of the Scheme is subject to a number of Conditions Precedent. The Scheme will not proceed unless all the Conditions Precedent are satisfied or waived in accordance with the Scheme Implementation Deed.

A summary of these Conditions Precedent is set out below:

- **South African Reserve Bank (SARB) Approval:** before 8:00am on the Second Court Date, Woolworths receives all approvals, consents and authorisations required from SARB on terms acceptable to Woolworths;
- **Woolworths Shareholder Approvals:** Woolworths shareholders approving both:
  - the Transaction by way of an ordinary majority of 50% plus one vote; and
  - certain matters pertaining to implementation of the Woolworths Rights Offer which Woolworths is intending to undertake once the Scheme has been implemented, by a special majority of 75% plus one vote;
- **Foreign Investment Review Board (FIRB) Approval:** before 8:00am on the Second Court Date, provision of a notice in writing from the Treasurer or the Treasurer's delegate to the effect that there are no objections to the Transaction (or the Treasurer becomes precluded from making an order in respect of the Transaction);
- **Approval of the Scheme by the Federal Court:** the Federal Court approving the Scheme in accordance with section 411(4)(b) of the Corporations Act;
- **Agreement to the Scheme by David Jones Shareholders:** David Jones Shareholders approving the Scheme by the requisite majorities;

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- **No regulatory restraints:** before and as at 8:00am on the Second Court Date:
  - there is not in effect any preliminary or permanent injunction or other preliminary or final decision, order or decree issued by any court or Government Agency of competent jurisdiction, nor is there in effect any other legal restraint of prohibition; and
  - no other action or investigation is announced or commenced by any Government Agency,

  which restrains, prohibits or otherwise materially adversely impedes or impacts upon (or could reasonably be expected to restrain, prohibit or otherwise materially adversely impact upon) the completion of the Transaction;
- **No Material Adverse Change:** no Material Adverse Change occurring between 9 April 2014 (being the date upon which the Scheme Implementation Deed was entered into) and 8.00am on the Second Court Date.

  In summary, a **Material Adverse Change** is:

  (A) a matter which:
  - diminishes on an estimated annualised basis David Jones' estimated net profit after tax for FY14 so it is less than A$75 million (excluding one-off or non-recurring events);
  - reduces David Jones' net tangible assets by greater than A$80 million (including one-off or non-recurring events); or

  (B) any other matter that is, or is reasonably likely to be, materially adverse to the ability of David Jones to perform its obligations under the Scheme Implementation Deed,

  in each case other than matters:
  - required or permitted by the Scheme Implementation Deed or Scheme;
  - resulting from changes in general economic or political conditions or the securities market (except that this item does not qualify the financial metrics above);
  - fairly disclosed to Woolworths or ASX (prior to the date of the Scheme Implementation Deed); or
  - that occur with Woolworths' consent.

  The full definition of this term is provided in the Scheme Implementation Deed.
- **No Prescribed Occurrence:** no Prescribed Occurrences occurring between 9 April 2014 (being the date upon which the Scheme Implementation Deed was entered into) and 8.00am on the Second Court Date.

  Prescribed Occurrences include (but are not limited to) David Jones:

  (A) changing its capital structure (for example, share issue or performance rights, buy backs);

  (B) declaring a dividend (other than the Interim Dividend);

  (C) disposing of, or encumbering, a whole or substantial part of its business;

  (D) going insolvent (or other insolvency related actions);

  (E) making an acquisition (or disposal) valued at more than A$40 million;

  (F) incurring, borrowing or committing to capex of more than A$40 million;

  (G) materially amending the employment arrangements of any employee who has a total employment cost exceeding A$500,000 without consulting with Vela Investments;

  (H) increasing the remuneration or paying bonus or termination payments to relevant employees in excess of an aggregate amount to be specified, other than under contractual entitlements;

  (I) changing accounting policies or de-consolidating the David Jones consolidated tax group; or

  (J) materially defaulting under any agreement which is material in the context of the David Jones Group taken as a whole,

  unless such a matter is:

  (K) required or permitted by the Scheme Implementation Deed or the Scheme;

  (L) consented to by Vela Investments;

  (M) fairly disclosed to Vela Investments or disclosed in an ASX announcement or to ASIC (prior to the date of the Scheme Implementation Deed); or

  (N) occurs in the ordinary course of Davis Jones' business.

  The full definition of this term is provided in the Scheme Implementation Deed.
- **No Force Majeure Event:** no Force Majeure Event occurring between 9 April 2014 (being the date upon which the Scheme Implementation Deed was entered into) and the Second Court Date.

  A **Force Majeure Event** means:

  (A) any material adverse change in national or international monetary, political, financial or economic conditions or securities markets, or in foreign exchange controls in South Africa, Australia, United Kingdom or United States of America;

  (B) a suspension or material limitation in trading in securities generally on the Johannesburg Stock Exchange (**JSE**), ASX, New York Stock Exchange, NASDAQ Stock Market or London Stock Exchange;

  (C) a suspension or material limitation in trading in Woolworths' shares on JSE for a period exceeding 10 consecutive trading days (provided such suspension or limitation has not been requested or triggered in bad faith by Woolworths); or

  (D) a general moratorium on commercial banking activities in South Africa, Australia, United Kingdom or United States of America by any relevant authority or a material disruption in commercial banking or securities settlement or clearance services in those jurisdictions,

  in each case which makes it impracticable for Vela Investments to make payment of the Scheme Consideration to David Jones Shareholders.

All of the Conditions Precedent are set out in full in clause 3 of the Scheme Implementation Deed.

As set out in more detail in Section 12.8, the Conditions Precedent above requiring FIRB approval and SARB approval have already been satisfied.

As at the Last Practicable Date, none of the David Jones Directors are aware of any circumstances which would cause any Condition Precedent not to be satisfied.

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6.7 If the Scheme does not become Effective

If the Scheme does not become Effective:

- David Jones Shareholders will continue to hold David Jones Shares and will be exposed to the risks relating to David Jones' business, including those set out in Section 9; and
- Scheme Shareholders will not receive the Scheme Consideration.

In the absence of a Superior Proposal, David Jones will continue as a standalone entity with management continuing to implement the business plan and financial and operating strategies it had in place prior to the announcement of the Transaction.

Prior to the Scheme Meeting, transaction costs will have been incurred, or will be committed, by David Jones in relation to the Scheme. Those transaction costs will be payable by David Jones regardless of whether or not the Scheme becomes Effective and is implemented.

Your Directors are of the opinion that if the Scheme does not proceed, the price of a David Jones Share on ASX is likely to fall, in the absence of a Superior Proposal.

6.8 Your choices as a David Jones Shareholder

As a David Jones Shareholder, you have four choices currently available to you, which are as follows:

- vote in favour of the Scheme;
- vote against the Scheme;
- sell your David Jones Shares; or
- do nothing.

More detail in relation to each of these choices is set out in Section 4.5 above.

6.9 Scheme approval requirements

As part of the Conditions Precedent discussed in Section 6.6, the Scheme will only become Effective and be implemented if it is:

- agreed to by the requisite majority of David Jones Shareholders at the Scheme Meeting to be held on Monday 30 June 2014; and
- approved by the Federal Court at the Second Court Hearing.

Agreement by David Jones Shareholders requires the Scheme Resolution to be agreed to by:

- a majority in number (more than 50%) of David Jones Shareholders present and voting at the Scheme Meeting on Monday 30 June 2014 (either in person or by proxy) (the **Head Count Approval Requirement**); and
- at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting on Monday 30 June 2014 by David Jones Shareholders present and voting at the Scheme Meeting (either in person or by proxy).

It should be noted that the Federal Court has the power to waive the Head Count Approval Requirement.

6.10 Scheme Meeting and how to vote

(a) Scheme Meeting

The Federal Court has ordered David Jones to convene the Scheme Meeting at which David Jones Shareholders will be asked to approve the Scheme. David Jones has convened the Scheme Meeting to be held on Monday 30 June 2014 at the Wesley Conference Centre, 220 Pitt Street, Sydney, commencing at 10.00am.

The terms of the Scheme Resolution to be considered at the Scheme Meeting are contained in the Notice of Scheme Meeting in Annexure F.

The fact that the Federal Court has ordered the Scheme Meeting to be convened and has approved this Scheme Booklet required to accompany the Notice of Scheme Meeting does not mean that the Federal Court has prepared, or is responsible for the content of, this Scheme Booklet or has any view as to the merits of the Scheme or as to how David Jones Shareholders should vote. On these matters David Jones Shareholders must reach their own decision.

(b) Attendance at Scheme Meeting

The entitlements of holders of David Jones Shares to vote at the Scheme are set out in the Notice of Scheme Meeting.

Instructions on how to attend and vote at the Scheme Meeting to be held on Monday 30 June 2014 (in person, by proxy, or in person through an attorney or body corporate representative) are set out in the Notice of Scheme Meeting.

Voting is not compulsory. However, your Directors unanimously recommend that David Jones Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal.

The results of the Scheme Meeting will be available as soon as possible after the conclusion of the Scheme Meeting and will be announced to ASX once available (at www.asx.com.au). The results will also be published on David Jones' website at http://www.davidjones.com.au/For-Investors/ASX-and-Media-Releases.

6.11 Federal Court approval of the Scheme

In the event that:

- the Scheme is agreed to by the requisite majorities of David Jones Shareholders at the Scheme Meeting to be held on Monday 30 June 2014 (see Section 6.9 for the Scheme approval requirements); and
- all other Conditions Precedent (except Federal Court approval of the Scheme) have been satisfied or waived (if they are capable of being waived),

then David Jones will apply to the Federal Court for orders approving the Scheme.

Each David Jones Shareholder has the right to appear at the Second Court Hearing.

6.12 Effective Date

If the Federal Court approves the Scheme, the Scheme will become Effective on the Effective Date, being the date when a copy of the Federal Court order from the Second Court Hearing approving the Scheme is lodged with ASIC. David Jones will, on the Scheme becoming Effective, give notice of that event to ASX.

David Jones intends to apply to ASX for David Jones Shares to be suspended from official quotation on ASX from close of trading on the Effective Date.

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6.13 Scheme Record Date and entitlement to Scheme Consideration

Those David Jones Shareholders on the Share Register on the Scheme Record Date (currently expected to be Thursday 10 July 2014) will be entitled to receive the Scheme Consideration in respect of the David Jones Shares they hold as at the Scheme Record Date.

(a) Dealings on or prior to the Scheme Record Date

For the purpose of determining which David Jones Shareholders are eligible to participate in the Scheme, dealings in David Jones Shares will be recognised only if:

- in the case of dealings of the type to be effected using CHESS, the transferee is registered on the David Jones Share Registry as the holder of the relevant David Jones Shares as at 7:00pm on the Scheme Record Date (currently expected to be Thursday 10 July 2014); and
- in all other cases, registrable transmission applications or transfers in respect of those dealings are received by the David Jones Share Registry on or before the Scheme Record Date (and the transferee remains registered as at the Scheme Record Date).

For the purpose of determining entitlements under the Scheme, David Jones will not accept for registration or recognise any transfer or transmission applications in respect of David Jones Shares received after the Scheme Record Date.

(b) Dealings after the Scheme Record Date

For the purpose of determining entitlements to the Scheme Consideration, David Jones must maintain the Share Register in its form as at the Scheme Record Date (currently expected to be Thursday 10 July 2014) until the Scheme Consideration has been paid to the Scheme Shareholders. The Share Register in this form will solely determine entitlements to the Scheme Consideration.

After the Scheme Record Date:

- all statements of holding for David Jones Shares will cease to have effect as documents relating to title in respect of such David Jones Shares; and
- each entry on the Share Register will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the David Jones Shares relating to that entry.

6.14 Implementation Date

The Implementation Date is the fifth Business Day after the Scheme Record Date.

Under the Scheme Implementation Deed, by the Business Day before the Implementation Date Vela Investments must pay into a trust account nominated by David Jones the aggregate Scheme Consideration payable to Scheme Shareholders.

On the Implementation Date, which is currently expected to be Thursday 17 July 2014, David Jones will pay the Scheme Consideration received from Vela Investments to Scheme Shareholders.

Immediately after the Scheme Consideration is sent to Scheme Shareholders, the Scheme Shares will be transferred to Vela Investments without Scheme Shareholders needing to take any further action.

6.15 Deed Poll

Woolworths and Vela Investments have executed the Deed Poll, pursuant to which Vela Investments has undertaken in favour of each Scheme Shareholder (and Woolworths undertakes in favour of each Scheme Shareholder to unconditionally and irrevocably guarantee the obligation of Vela Investments) to provide each Scheme Shareholder with the Scheme Consideration to which they are entitled under the Scheme, subject to the Scheme becoming Effective.

A copy of the Deed Poll is contained in Annexure E.

6.16 Copy of Share Register

Under sections 169 and 173 of the Corporations Act, any David Jones Shareholder has a right to inspect, and to ask for a copy of, the Share Register which contains details of the name and address of each David Jones Shareholder. David Jones may require a David Jones Shareholder to provide reasons for their request prior to providing a copy of the Share Register, and a David Jones Shareholder must not use any information obtained for an improper purpose. A copy of the Share Register will be given to any David Jones Shareholder upon request and payment of the prescribed fee under the Corporations Act where David Jones is satisfied that the details provided are not likely to be used for an improper purpose.

6.17 Warranty by Scheme Shareholders

The terms of the Scheme provide that, on the Implementation Date (currently expected to be Thursday 17 July 2014), each Scheme Shareholder is taken to have warranted to David Jones and Vela Investments, and appointed and authorised David Jones as its attorney and agent to warrant to Vela Investments on the Implementation Date, that:

- all their David Jones Shares (including any rights and entitlements attaching to those Shares) which are transferred under the Scheme will, at the date of transfer, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind; and
- they have full power and capacity to transfer their David Jones Shares to Vela Investments together with any rights attaching to those Shares.

Under the terms of the Scheme, David Jones undertakes that it will provide such warranty to Vela Investments as agent and attorney of each Scheme Shareholder.

A copy of the Scheme is contained in Annexure D.

6.18 Delisting of David Jones

On the trading day immediately following, or shortly after, the Implementation Date, David Jones will apply for the termination of the official quotation of David Jones Shares on ASX and for David Jones to be removed from the official list of ASX.

INFORMATION ABOUT THE DAVID JONES GROUP

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7.1 Introduction

David Jones is Australia's leading premium department store with a unique positioning in the Australian market. Founded in 1838, it is an iconic Australian brand with 176 years of trading history.

In the financial year ended 27 July 2013, David Jones reported revenue from the sales of goods of A$1,845 million and EBIT of A$149 million.[12] These earnings were generated through two divisions:

- Department Stores which contributed A$99.5 million of EBIT in the financial year ended 27 July 2013;[13] and
- Financial Services which contributed A$49.5 million of EBIT in the financial year ended 27 July 2013.[14]

Positioning itself as Australia's "House of Brands", David Jones' department store offering focuses on the best national and international brands across categories such as Fashion, Accessories, Beauty and Home. A significant proportion of the David Jones brand portfolio is offered on a department store exclusive basis.

7.2 Overview of operations

David Jones' operations are classified into two divisions:

- Department Stores; and
- Financial Services.

In addition, David Jones owns its four Sydney and Melbourne CBD flagship store properties.

(a) Department Stores

David Jones is an omni channel retailer with 38 stores located in Australia's key urban and central business districts and has an online offering with over 120,000 Stock-Keeping Units (**SKUs**). Its store portfolio consists of:

- six central business district stores;
- a further 27 full line department stores;
- three smaller village format stores; and
- two warehouse stores. A decision has been taken not to renew the leases of the two warehouse stores (Birkenhead Point (New South Wales) expires September 2014 and Harbour Town (Queensland) expires June 2015) on expiry of these leases.

On 12 August 2013, David Jones entered into a Retail Brand Management Agreement (**RBMA**) with Dick Smith Electronics Pty Ltd (**Dick Smith**), transitioning David Jones' electronics business from an "own buy" model to a RBMA model.[15]

The store portfolio is in good condition with more than 50% of stores in the David Jones portfolio having been refurbished in the past five years (including stores currently under refurbishment). The business has also in recent years invested extensively in rolling out new technologies including a new webstore, Point of Sale System, a new Workforce Management Tool, Traffic Analytics and an Automated Rebate Deal Management Tool.

(b) Financial Services

David Jones' Financial Services business has two key card products, the David Jones Store Card and the David Jones American Express (Gold and Platinum), both of which operate in joint venture with American Express. As of July 2013, David Jones had approximately 390,000 active cards (including both American Express and Store Cards).

(c) Property Assets

David Jones owns its flagship properties on which its four Sydney and Melbourne central business district stores are located. David Jones announced in the David Jones 2012 Annual Report (released to the ASX on 17 October 2012) that the potential worth of the four properties was A$612 million. This value was determined on an existing use basis that does not take into account the development potential of the air-rights above these buildings. David Jones has continued to explore options to unlock value of its properties:

- in January 2014, David Jones lodged a preliminary development application with Sydney City Council in relation to its Market Street (New South Wales) property; and
- David Jones announced to the ASX on 19 March 2014 that it had appointed property advisers to seek expressions of interest in relation to the Market and Elizabeth Street (New South Wales) sites. This process is on hold pending the outcome of the Scheme.

7.3 David Jones Board and senior management

The David Jones Board comprises the following directors:

DIRECTOR'S NAME	POSITION
Gordon Cairns	Chairman and Non Executive Director
Paul Zahra	Chief Executive Officer and Managing Director
Jane Harvey	Non Executive Director
Philippa Stone	Non Executive Director
Melinda Conrad	Non Executive Director

[12] Extracted from David Jones 2013 Annual Report, excluding the impact of the Dick Smith transaction.

[13] See note 12 above.

[14] See note 12 above.

[15] Products covered by the RBMA include televisions, computers, tablets, home office, audiovisual and other digital products. Whitegoods and small appliances are not covered by the RBMA and continue to be operated by David Jones.

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Key members of David Jones' senior management team include:

NAME	POSITION
Paul Zahra	Chief Executive Officer and Managing Director
Brad Soller	Chief Financial Officer
Antony Karp	Group Executive, Retail Services
Donna Player	Group Executive, Merchandise
Cate Daniels	Group Executive, Operations
David Robinson	Group Executive, Marketing, Financial Services and Customer Innovation
Paula Bauchinger	Group Executive, Human Resources
Matthew Durbin	Executive, Strategic Planning

7.4 Capital structure

As at the Last Practicable Date, David Jones had the following securities on issue:

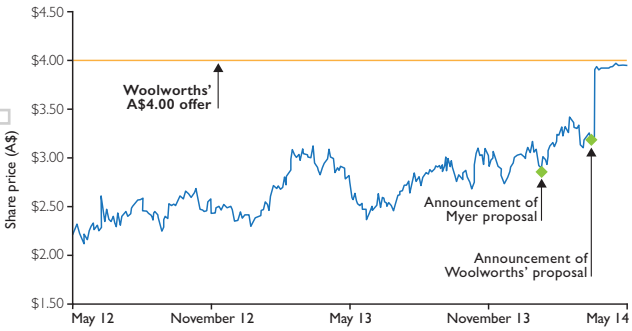
- 537,137,845 David Jones Shares; and
- 2,035,000 Performance Rights. Refer to Section 12.1 for information regarding the manner in which these Performance Rights will be dealt with in connection with the Scheme.

7.5 David Jones Share price

In the period from 21 May 2012 to 8 April 2014 (being the last trading day prior to the announcement of Woolworths' proposal), the daily closing price of David Jones Shares has fluctuated between a low of A$2.10 and a high of A$3.41. Since 8 April 2014, being the day prior to the announcement of Woolworths' proposal, the David Jones Share price has risen 23.8% to A$3.95 on 20 May 2014, being the Last Practicable Date.

The following chart highlights the movements in David Jones' Share price over that period:

David Jones Share price performance



Source: IRESS[16] (as at Last Practicable Date)

7.6 Historical financial information

The financial information set out below is in abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act. The financial information has been extracted from David Jones' financial results for the half year ended 25 January 2014, and its audited financial statements for the financial years ended 27 July 2013 and 28 July 2012.

David Jones' full financial accounts, including all notes to those accounts, can be found in:

- the David Jones Half Year (1H14) Financial Report for the 26 weeks ended 25 January 2014 (released to the ASX on 19 March 2014);
- the David Jones 2013 Annual Report for the financial year ended 27 July 2013 (released to the ASX on 17 October 2013); and
- the David Jones 2012 Annual Report for the financial year ended 28 July 2012 (released to the ASX on 17 October 2012).

Copies of these reports are available within the investor relations section of the David Jones website (http://www.davidjones.com.au/For-Investors). Alternatively, David Jones Shareholders may obtain copies of these documents free of charge by calling the David Jones Shareholder Information Line on 1300 580 123 (from within Australia) or +61 3 9415 4339 (from outside Australia) Monday to Friday between 9:00am to 5:00pm (Sydney time).

David Jones' financial reports for the financial years ended 27 July 2013 and 28 July 2012 were audited in accordance with applicable Australian accounting standards. The audit opinions relating to those financial reports were unqualified.

David Jones' financial report for the 26 weeks ended 25 January 2014 was reviewed in accordance with the applicable Australian accounting standards. The review report relating to this financial report was unqualified.

(a) Consolidated Statement of Financial Performance

The summarised historical consolidated statements of financial performance of David Jones which are set out:

- in the second column of the table on the following page, have been extracted from the reviewed financial results of David Jones for the 26 weeks ended 25 January 2014, being the last reviewed financial statements prior to the date of the Scheme Booklet;
- in the third column of the table on the following page, have been extracted from the audited financial statements of David Jones for the year ended 27 July 2013 as disclosed within the David Jones 2013 Annual Report, being the last audited financial statements prior to the date of the Scheme Booklet; and
- in the fourth column of the table on the following page, have been extracted from the audited financial statements of David Jones for the year ended 28 July 2012 as disclosed within the David Jones 2012 Annual Report.

[16] This Scheme Booklet contains various references to trading data prepared by IRESS Limited (ACN 060 313 359) who has not consented to such use of references to that trading data in this Scheme Booklet.

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	For the period ended 25 Jan 2014 (26 wks) $'000	For the year ended 27 Jul 2013 (52 wks) $'000	For the year ended 28 Jul 2012 (52 wks) $'000
Total sales ^	1,042,349		
Agency sales revenue ^	(17,269)		
Revenue from sale of goods	1,025,080	1,845,012	1,867,817
Cost of sales	(619,028)	(1,147,968)	(1,167,987)
Gross Profit	**406,052**	**697,044**	**699,830**
Other revenues	16,656	62,532	57,568
Employee benefits expenses	(151,376)	(296,103)	(282,593)
Lease and occupancy expenses	(100,742)	(193,286)	(189,114)
Depreciation and amortisation expenses	(31,262)	(56,762)	(51,949)
Advertising, marketing and visual merchandising expenses	(16,875)	(34,966)	(39,036)
Administration expenses	(11,554)	(24,119)	(26,909)
Other expenses	(7,738)	(14,442)	(13,384)
Finance costs	(3,745)	(9,057)	(10,938)
Finance income	296	490	347
Profit before income tax expense	**99,712**	**131,331**	**143,822**
Income tax expense	(29,563)	(36,147)	(42,719)
Profit after income tax expense attributable to equity holders of the parent entity	**70,149**	**95,184**	**101,103**
Other comprehensive income:			
Items that will be reclassified to profit or loss in future periods:			
Gains on cash flow hedges	874	3,512	1,713
Transfer of realised gains on hedges to profit and loss	(694)	(1,418)	(1,621)
Income tax on items of other comprehensive income	(54)	(628)	(28)
Total other comprehensive income for the year, net of tax	**126**	**1,466**	**64**
Total comprehensive income attributable to equity holders of the parent entity for the year	**70,275**	**96,650**	**101,167**
Earnings per share for profit attributable to the equity holders of the parent entity:			
Basic earnings per share (cents per share)	*13.1*	*18.0*	*19.4*
Diluted earnings per share (cents per share)	*13.1*	*17.9*	*19.4*

^ Note: No corresponding figures reported on Statement of Comprehensive Income in David Jones 2013 Annual Report and David Jones 2012 Annual Report.

David Jones reported a net profit after tax attributable to David Jones Shareholders of A$95.2 million in the financial year ended 27 July 2013. The net profit after tax reflected the one off inventory provision resulting from the Dick Smith transaction of A$6.4 million. Excluding the impact of the Dick Smith transaction (post tax), net profit after tax was A$101.6 million as illustrated below.

for the year ended 27 Jul 2013

	Reported results $'000	Impact of Dick Smith transaction $'000	Before Dick Smith transaction $'000
Profit before income tax expense	**131,331**	**9,100**	**140,431**
Income tax expense	(36,147)	(2,730)	(38,877)
Profit after income tax expense	**95,184**	**6,370**	**101,554**
Earnings per share for profit attributable to the equity holders of the parent entity (excluding the impact of the Dick Smith transaction):			
Basic earnings per share (cents per share)	*18.0*		*19.2*
Diluted earnings per share (cents per share)	*17.9*		*19.1*

David Jones' revenue has historically been subject to seasonal trading patterns. Historically, a disproportionate amount of annual revenue has been generated during the first half of the financial year due to the Christmas trading and subsequent clearance sales. As a result, David Jones' first half earnings are typically higher than its second half earnings.

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(b) Consolidated Statement of Financial Position

The summarised historical consolidated statements of financial position of David Jones which are set out:

- in the second column of the table below, have been extracted from the reviewed financial results of David Jones for the 26 weeks ended 25 January 2014, being the last reviewed financial statements prior to the date of the Scheme Booklet;
- in the third column of the table below, have been extracted from the audited financial statements of David Jones for the year ended 27 July 2013 as disclosed within the David Jones 2013 Annual Report, being the last audited financial statements prior to the date of the Scheme Booklet; and
- in the fourth column of the table below, have been extracted from the audited financial statements of David Jones for the year ended 28 July 2012 as disclosed within the David Jones 2012 Annual Report.

	As at 25 Jan 14 $'000	*As at* 27 Jul 13 $'000	*As at* 28 Jul 12 $'000
CURRENT ASSETS			
Cash and cash equivalents	45,747	13,877	20,536
Receivables	25,835	19,092	16,389
Inventories	224,767	251,543	279,099
Financial assets	965	941	24
Other assets	9,481	6,670	7,201
Non current assets held for sale	–	2,582	–
Total current assets	**306,795**	**294,705**	**323,249**
NON-CURRENT ASSETS			
Financial assets	12	12	12
Property, plant and equipment	808,593	835,373	817,432
Intangible assets	49,324	44,644	43,977
Deferred tax assets	59,849	62,391	55,833
Other assets	1,220	660	394
Total non-current assets	**918,998**	**943,080**	**917,648**
Total assets	**1,225,793**	**1,237,785**	**1,240,897**
CURRENT LIABILITIES			
Payables	255,945	261,840	264,595
Interest bearing liabilities	45,064	360	11,006
Current tax liabilities	16,476	3,053	3,097
Provisions	33,331	35,586	25,955
Financial liabilities	23	178	1,357
Other liabilities	1,029	813	288
Total current liabilities	**351,868**	**301,830**	**306,298**
NON-CURRENT LIABILITIES			
Interest bearing liabilities	–	100,000	125,000
Provisions	8,446	7,359	6,183
Other liabilities	24,970	27,500	27,712
Total non-current liabilities	**33,416**	**134,859**	**158,895**
Total liabilities	**385,284**	**436,689**	**465,193**
Net assets	**840,509**	**801,096**	**775,704**
EQUITY			
Contributed equity	570,627	564,698	547,028
Reserves	77,563	76,867	74,362
Retained earnings	192,319	159,531	154,314
Total equity	**840,509**	**801,096**	**775,704**

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(c) Consolidated Statement of Cash Flows

The summarised historical consolidated statements of cash flows of David Jones which are set out:

- in the second column of the table below, have been extracted from the reviewed financial results of David Jones for the 26 weeks ended 25 January 2014, being the last reviewed financial statements prior to the date of the Scheme Booklet;
- in the third column of the table below, have been extracted from the audited financial statements of David Jones for the year ended 27 July 2013 as disclosed within the David Jones 2013 Annual Report, being the last audited financial statements prior to the date of the Scheme Booklet; and
- in the fourth column of the table below, have been extracted from the audited financial statements of David Jones for the year ended 28 July 2012 as disclosed within the David Jones 2012 Annual Report.

	For the period ended 25 Jan 2014 (26 wks) $'000	*For the year ended* 27 Jul 2013 (52 wks) $'000	*For the year ended* 28 Jul 2012 (52 wks) $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)	1,142,242	2,025,548	2,058,903
Payments to suppliers and employees (inclusive of GST)	(1,016,188)	(1,851,721)	(1,846,677)
Commissions received	16,656	58,064	54,498
Interest received	296	490	347
Borrowing costs paid	(3,745)	(9,057)	(10,884)
Income tax paid	(13,612)	(43,288)	(59,450)
Net cash flows from operating activities	**125,649**	**180,036**	**196,737**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment	(2,559)	(74,890)	(70,009)
Payments for software	(7,127)	(4,094)	(11,475)
Net proceeds from sale of property	2,635	232	111
Net cash flows used in investing activities	**(7,051)**	**(78,752)**	**(81,373)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on ordinary shares	(31,432)	(72,297)	(110,594)
Net (repayment) / proceeds from borrowings	(55,000)	(36,000)	7,000
Net cash flows used in financing activities	**(86,432)**	**(108,297)**	**(103,594)**
Net increase / (Decrease) in cash and cash equivalents	**32,166**	**(7,013)**	**11,770**
Cash and cash equivalents at beginning of the year	13,517	20,530	8,760
Cash and cash equivalents at end of the year	**45,683**	**13,517**	**20,530**
Reconciliation to the Statement of Financial Position			
Cash and cash equivalents	45,747	13,877	20,536
Bank overdraft	(64)	(360)	(6)
Cash and cash equivalents at end of the year	**45,683**	**13,517**	**20,530**

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(d) Material Changes in David Jones' Financial Position since David Jones Half Year (1H14) Financial Report

Other than:

- the accumulation of profits in the ordinary course of trading; or
- as disclosed in the Scheme Booklet or as otherwise disclosed to ASX by David Jones,

within the knowledge of the David Jones Board, the financial position of David Jones has not materially changed since 25 January 2014, being the date of the David Jones Half Year (1H14) Financial Report.

7.7 Outlook

If the Transaction does not proceed, David Jones will continue to implement its previously stated strategy, underpinned by its Future Strategic Direction Plan (as initially outlined in David Jones' announcement to the ASX on 21 March 2012 and updated in subsequent announcements to the ASX). This strategy is based on two strategic imperatives – addressing structural change (through omni channel retailing and cost price harmonisation) and driving growth from the core department store business (through growing sales, maximising profit margins, managing costs and inventory management).

David Jones' view is that its Future Strategic Direction Plan is gaining momentum and delivering results. On 6 May 2014, David Jones announced that it continued to see sales growth momentum in third-quarter 2014, with David Jones reporting that it had experienced its third consecutive quarter of total sales growth and its second consecutive quarter of like-for-like sales growth in third-quarter 2014. David Jones has been successfully transformed into an omni channel retailer. David Jones has a strong brand and market positioning which holds its business in good stead for future growth.

David Jones has growth prospects as an independent ASX-listed company, however the current strategy would take time to fully implement and involves execution risks, some of which are outside the control of David Jones. If the Transaction does not proceed, David Jones Shareholders would continue to be subject to the risks related to this strategy, as well as other specific risks associated with David Jones' business which are set out in Section 9.

7.8 Publicly available information about David Jones

David Jones is a listed disclosing entity for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. Specifically, as a company listed on the ASX, David Jones is subject to the Listing Rules which require (subject to some exceptions) continuous disclosure of any information David Jones has that a reasonable person would expect to have a material effect on the price or value of David Jones Shares.

ASX maintains files containing publicly disclosed information about all companies listed on the ASX. Information disclosed to ASX by David Jones is available on ASX's website at www.asx.com.au.

In addition, David Jones is required to lodge various documents with ASIC. Copies of documents lodged with ASIC by David Jones may be obtained from an ASIC office.

David Jones Shareholders may obtain a copy of:

- the David Jones 2013 Annual Report (being the full financial report most recently lodged with ASIC before the registration of this Scheme Booklet with ASIC);
- the David Jones Half Year (1H14) Financial Report (being the last reviewed financial statements lodged with ASIC before the registration of this Scheme Booklet with ASIC); and
- any announcements given to ASX by David Jones after the lodgement by David Jones of the David Jones Half Year (1H14) Financial Report and before the date of this Scheme Booklet,

free of charge, by calling the David Jones Shareholder Information Line on 1300 580 123 (from within Australia) or +61 3 9415 4339 (from outside Australia) Monday to Friday between 9:00am to 5:00pm (Sydney time).

A list of announcements made by David Jones to ASX from 19 March 2014 (being the date on which David Jones lodged the David Jones Half Year (1H14) Financial Report with ASX) to the Last Practicable Date is contained in Annexure A.

A substantial amount of information about David Jones, including financial information and releases to ASX, is available in electronic form on David Jones' website at http://www.davidjones.com.au/For-Investors.

INFORMATION ABOUT VELA INVESTMENTS AND WOOLWORTHS GROUP

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Information contained in this Section 8 has been prepared by Woolworths. The information concerning the Woolworths Group (including Vela Investments) and the intentions, views and opinions contained in this Section 8 are the responsibility of Woolworths.

In this Section 8 (and in other Sections of this Scheme Booklet), a reference to **Woolworths** is a reference to **WHL** and vice versa.

8.1 Overview of Vela Investments

Vela Investments was incorporated for the purpose of entering into the Scheme Implementation Deed and acquiring all of the issued shares in David Jones. Vela Investments is wholly owned by Osiris Holdings Pty Ltd ACN 168 919 391 (**Osiris Holdings**) which in turn is wholly owned by WHL.

Certain members of the WHL Group (including WHL, Vela Investments and Osiris Holdings) have entered into certain debt facilities which, together with the WHL Group's available cash, will provide Vela Investments with the funds required to satisfy its obligations to pay the Scheme Consideration under the Scheme. Please see Section 8.7 below for full details of the funding arrangements for the Scheme Consideration.

8.2 Overview of Woolworths

(a) Corporate information

WHL is a South African-based retail group and one of the top 40 companies listed on the JSE, trading under the code WHL. For the 53 weeks ended 30 June 2013, WHL earned revenue of R35.4 billion ($A3.9 billion) and net profit after tax of R2.6 billion ($A291 million).[17] As at the date of this Scheme Booklet, WHL's market capitalisation was approximately R58.2 billion ($A6.0 billion).[18]

WHL's core business focus is retail with a footprint predominately in South Africa and sub-Saharan Africa, trading in clothing and food in more than 600 stores. WHL's operations also extend to Australia and New Zealand with an 88% majority interest in Country Road Limited (**Country Road**).

WHL is headquartered in Cape Town, South Africa. It employs over 26,000 people and trades in 16 countries.

As mentioned in section 6.1, WHL is unrelated to the ASX-listed Woolworths Limited.

(b) WHL timeline of significant events

YEAR	EVENT
1929	WHL incorporated in South Africa
1931	The origins of WHL date back to 1931 when Max Sonnenberg officially opened the doors of the first Woolworths store in Adderley Street, Cape Town
1994	Introduced financial services with the Woolworths in-store card
1997	Listed on the JSE
1997	Secured a controlling interest in Country Road
2000	Woolworths Financial Services (Proprietary) Limited (**Woolworths Financial Services**) incorporated as a separate company to provide focus for financial products and services
2007	Launched "The Good Business Journey" sustainability programme to manage environmental footprint and contribution to social and transformational issues
2007	Launched the group's Black Economic Empowerment Employee Share Ownership Scheme, with eligible Woolworths employees acquiring an effective 10% of WHL's issued share capital
2008	Sold controlling share of Woolworths Financial Services to Barclays Africa Group (formerly ABSA Group)
2008	Country Road brand launched in South Africa
2009	Country Road launched Trenery brand in South Africa
2010	Commenced reacquisition of franchise stores
2010	Launched "WRewards" customer loyalty programme in Woolworths stores
2012	Country Road acquired the Witchery Group
2014	Witchery and Mimco brands launched in South Africa

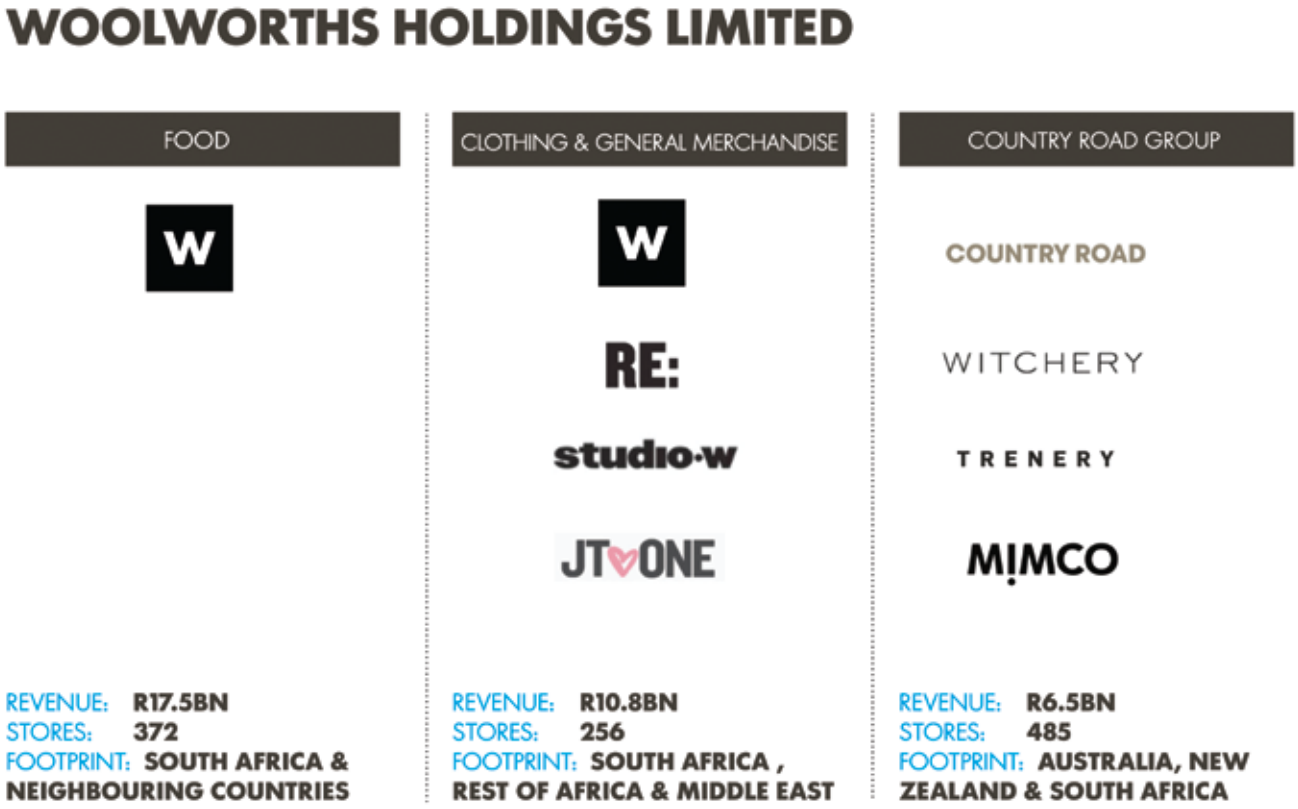
[17] ZAR figures for WHL are converted at the ZAR/AUD exchange rate of 9.05, the daily average of the exchange rate from 25/06/2012 to 30/06/2013, being the 53 week period of WHL's financial year for 2013.

[18] ZAR figure for WHL is converted at the ZAR/AUD exchange rate of 9.67, the exchange rate as at the Last Practicable Date.

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(c) Principal activities / operations

The following table summarises Woolworths' key brands and provides summary information on each. Detailed information follows.



Note: Revenue of R561 million from the Woolworths Logistics Division and R39 million from Woolworths Treasury has not been included in the above table.

(1) **WHL Clothing & General Merchandise**

Woolworths' leadership in fashion, homeware and beauty is anchored by its own private label brands (majority of sales) including the RE: and Studio.W brands. With a footprint of more than 250 stores in South Africa and sub-Saharan Africa, a broad range of merchandise offers customers classic, modern and contemporary styles. Woolworths' clothing & home business represents approximately 31% of WHL's turnover and contributed approximately 52% of profit before tax for the year to 30 June 2013.

(2) **WHL Food**

The Woolworths food business, trading in more than 370 stores in South Africa and neighbouring African countries, has been built on strong fresh produce and prepared food categories. Offering convenience, innovation and healthy foods, a growing supermarket footprint builds on this strong base and enables existing customers to complete their main shop in Woolworths food stores. Woolworths' Food business represents approximately 51% of WHL's turnover[19] and contributed approximately 28% of profit before tax for the year to 30 June 2013.

(3) **WHL Financial Services**

Financial services are provided by Woolworths Financial Services, a joint venture with Barclays Africa Group, one of the leading banking institutions in South Africa. The products offered include an in-store card, credit card and personal loan and short-term insurance products. Woolworths Financial Services contributed approximately 5% of WHL's profit before tax for the year to 30 June 2013.

(4) **Country Road**

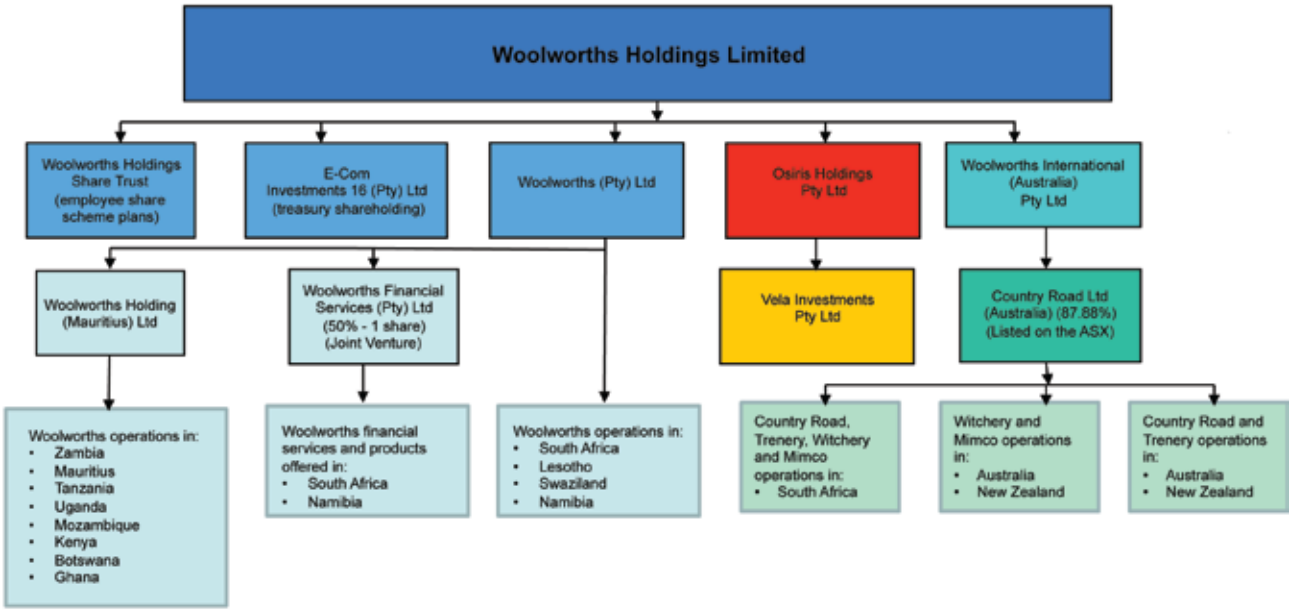
Founded in 1974, the Country Road Group is one of Australia's largest specialty fashion and homeware retailers with a leading position in the mid- to upper- tier of the specialty apparel market and operating in more than 480 stores in the southern hemisphere. Following the acquisition of the Witchery Group in 2012, the Witchery and Mimco brands have been added to the Country Road and Trenery brands within Country Road. These four brands are complementary and appeal to a wide customer base. Country Road has successfully expanded the brands into the South African market in the form of stand-alone stores and concession stores within the Woolworths footprint. Country Road Group has concession arrangements with David Jones in respect of its Country Road, Witchery and Mimco brands. Country Road represents approximately 18% of WHL turnover and contributed approximately 14% of profit before tax in the year ended 30 June 2013.

[19] WHL Food turnover includes turnover from Woolworths Logistics.

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WHL has earned a unique position in the South African retail landscape with its offering of clothing and general merchandise and food in multiple retail footprints. The brand essence – "the difference" reflects the core values of quality, style, value service, innovation, integrity, energy and sustainability. The broader business impact is managed through comprehensive social, ethical and environmental practices and in recognition of this Woolworths has been recognised as the World's Most Responsible Retailer by the World Retail Congress three times in the last five years.

(d) Summary of Woolworths Holdings Limited Group structure



8.3 Directors of Vela Investments and Woolworths

(a) Directors of Vela Investments

The directors of Vela Investments are:

(1) **Mr Ian Moir**

MBA, MA (ECON)

Age 55, (appointed Director in 2014)

Ian was appointed to the Board of Country Road on 23 October 1998. He was formerly Chief Operating Officer of Country Road before being appointed Chief Executive Officer in November 2000. He was previously Executive Director and Chief Operating Officer of Woolmark. He joined the WHL Board in January 2010 and was appointed the Group Chief Executive Officer in November 2010. He is a member of the Risk, Sustainability and Social and Ethics committees.

Other directorships include: WHL, Country Road, Woolworths Financial Services, Woolworths (Proprietary) Limited (**WPL**) and Woolworths Holding (Mauritius) Limited.

(2) **Ms Janine Rolfe**

BEc, LLB (Hons)

Age 36, (appointed Director in 2014)

Ms Rolfe has over 15 years' experience as a company secretary and corporate lawyer. Ms Rolfe is a director and founder of a business known as Company Matters, which provides governance, legal and company secretarial services. Ms Rolfe was formerly the Company Secretary of Qantas Airways Limited.

Other directorships include: Australian subsidiaries of ASOS plc (listed on the London Stock Exchange) and Australian subsidiaries of Cairn India (listed on the National Stock Exchange of India and the Bombay Stock Exchange).

Ms Rolfe intends to vacate her position on the board of Vela Investments shortly following implementation of the Scheme.

(b) Directors of WHL – non-executive directors

The non-executive directors of WHL are:

(1) **Mr Simon Susman, Non-independent non-executive chairman**

Age 63, (appointed Chairman in 2011)

Simon joined WHL in 1982 after working at clothing and food retailer, Marks & Spencer plc. in London. At WHL he has led the retail operations, food and clothing groups and was appointed as an executive director to the WHL Board in 1995. He became the Chief Executive Officer in 2000. He was appointed on 18 November 2010 as a non-executive director and deputy chairman. He was appointed on 17 November 2011 as WHL Chairman. He is the Chairman of the Nominations and Sustainability committees, and a member of the Remuneration, Risk and Social and Ethics committees.

Other directorships include: Trent Limited, Allied Electronics Corporation Limited, Business Against Crime and Chairman of Conservation International (SA) Centre for Biodiversity and Conservation.

(2) **Mr Tom Boardman, Independent non-executive director, Lead independent director**

BCom, CA (SA)

Age 64, (appointed Director in 2010)

Tom has held a number of senior positions in the banking industry since 1986 and previously held the position of Chief Executive Officer at Nedbank. He is currently a non-executive director at Nedbank. Past directorships also include Boardmans and Sam Newman Limited, as well as BoE International Holdings Limited. He is a non-executive director of Mutual & Federal Insurance Company Limited and the WWF South Africa (World Wide Fund for nature) and other charitable and community organisations. He was also a director of Vodacom Group Limited. He joined the WHL Board in September 2010. He was appointed Lead independent non-executive director on 17 November 2011. He is the Chairman of the Remunerations committee and a member of the Nominations, Sustainability and Social and Ethics committees.

Other directorships include: Nedbank, Nedbank Group, Nedbank Private Wealth International, African Rainbow Minerals, Investment AB Kinnevik and Royal Bafokeng Holdings.

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(3) **Mr Peter Bacon, Independent non-executive director (British)**

Fellow of the Institute of Hospitality (FIH)

Age 67, (appointed Director in 2006)

Peter was previously with the Sun International group of companies for 34 years. He was Chief Executive of Sun International's South African operations from 1993 and Group Chief Executive for the last four years of his employment with the group. He joined the WHL Board in 2006 and is a member of the Audit and Remuneration committees.

Other directorships include: The Elgin Wine Company, Sun International and Chairman of the National Sea Rescue Institute.

(4) **Ms Zarina Bassa, Independent non-executive director**

BAcc, Postgraduate Diploma in Accounting, CA(SA)

Age 49, (appointed Director 2011)

Zarina's previous board roles include chairing the Public Accountants and Auditors Board, the Auditing Standards Board, the Accounting Standard Board, the JSE's GAAP Monitoring Panel, the South African Institute of Chartered Accountants and Vice President of ABASA. Prior to joining ABSA in 2002 she was a partner at EY. She joined the WHL Board in 2011 and is a member of the Audit and Risk committees.

Other directorships include: Songhai Capital, Kumba Iron Ore, Vodacom South Africa, Sun International, Lewis Group, Oceana Group, Financial Services Board and Yebo Yethu.

(5) **Mr Andrew Higginson, Independent non-executive director (British)**

BSc (HONS) Town And Country Planning 2.1, Honorary Doctorate: Birmingham City University, Fellow Chartered Institute of Management Accountants

Age 56, (appointed Director in 2012)

Andrew has held a number of senior leadership roles in retail in Britain and was also the Chief Executive Retailing Services of Tesco plc. He previously held the position of Finance director at Tesco plc and at several other British-based retailers. He also served as a non-executive director and as the Chairman of Audit committees for a number of companies listed on the London Stock Exchange. He joined the WHL Board on 1 June 2012 and is a member of the Audit, Remuneration and Risk committees.

Other directorships include: Poundland plc (Chairman), BSkyB Group plc, N Brown plc and McCurrach UK.

(6) **Mr Mike Leeming, Independent non-executive director**

BCom, MCom, FCMA, FIBSA, AMP (HARVARD)

Age 70, (appointed Director in 2004)

Mike was previously the Chief Operating Officer at Nedcor and has an in-depth knowledge of financial services as well as manufacturing. He joined the WHL Board in 2004 and is the Chairman of the Audit and Risk committees and a member of the Nominations committee.

Other directorships include: AECI, Allied Electronics Corporation Limited and Imperial Holdings.

(7) **Mr Chris Nissen, Independent non-executive director**

BA (HONS), MA

Age 55, (appointed Director in 2004)

Chris was previously the Chairperson of South Atlantic Fishing (SAFCO) and he has been a director of Sea Harvest Corporation and JCI. He has been extensively involved in the development and upliftment of communities both as a Minister in the Presbyterian Church and as a community leader. He has executive experience in a number of industries and as a non-executive director has proactively led transformation at a number of listed companies. He joined the WHL Board in 2004 and is the Chairman of the Social and Ethics committee and a member of the Nominations and Sustainability committees.

Other directorships include: Ascension Properties (Chairperson), Standard Bank Group and Cape Empowerment Trust (Chairperson).

(8) **Ms Thina Siwendu, Independent non-executive director**

BA Social Science (SW) (HONS) (UCT), LLB (Natal)

Age 47, (appointed Director in 2009)

Thina is an attorney with 15 years of legal experience. She has been a director of various companies, both listed and non-listed in the banking, property, portfolio investment, aviation and public sector over the last six years. In 1996 Thina formed her own legal firm, Thina Siwendu & Associates. Her firm specialises in public-private partnerships, project financing, corporate structuring and corporate governance. She joined the WHL Board in August 2009 and is a member of the Risk and Social and Ethics committees.

Other directorships include: DLA Cliffe Dekker Hofmeyr Inc. and Chemical Specialities and a member of the United Nations Global Compact - Local Advisory Network (SA).

(9) **Sir Stuart Rose, Independent non-executive director (British)**

Age 65, (appointed Director in 2011)

Sir Stuart has strong international retail experience. He started his career in retail at Marks & Spencer plc in 1971, where he remained until 1989, before going on to become Chief executive at a number of well-known UK retailers, including Argos plc., Booker plc. and Arcadia Group plc. He relinquished the position as Chief Executive of Marks & Spencer plc in July 2010 and retired as its Chairman on 4 January 2011. He joined the WHL Board in January 2011 and is a member of the Nominations, Remuneration, Risk and Sustainability committees.

Other directorships include: Ocado Group plc. (Chairman) and Fat Face Limited.

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(c) Directors of WHL – executive directors

The executive directors of WHL are:

(1) **Mr Ian Moir, Group Chief Executive Officer**

Information about Mr Moir is provided above in respect of Vela Investments.

(2) **Mr Reeza Isaacs, Finance Director**

BCom, CA(SA)

Age 45, (appointed Director in 2013)

Reeza Isaacs joined WHL in June 2013 as Deputy CFO, and was appointed Finance Director in November 2013. He was previously the Senior Partner for the Western Cape EY office and a partner from 1999. Reeza has worked across multiple business sectors, including manufacturing, retail, oil, gas, asset management and insurance and with a wide variety of entities, including listed, private and owner-managed entities. He served as the lead partner for several of EY's largest Cape Town clients, including Engen, Coronation, WHL, Metropolitan Life, Sanlam and Truworths.

Other Directorships include: Woolworths Financial Services, WPL and Woolworths Holding (Mauritius) Limited.

(3) **Mr Sam Ngumeni, Chief Operating Officer**

MBA, BCom

Age 45, (appointed Director in 2014)

Sam was appointed as the Chief Operating Officer in March 2012, and is responsible for human resources, transformation, information technology, supply chain and logistics. Sam has been with WHL for 13 years mainly in financial services and has more than 16 years of retail credit experience. Sam was previously the Chief Executive Officer for Woolworths Financial Services, where he spearheaded the successful joint venture between the Barclays Africa Group and WHL. He was appointed to the WHL Board in February 2014.

Other Directorships include: Woolworths Financial Services

(4) **Ms Zyda Rylands, Managing Director Food**

BCom (HONS), CA(SA)

Age 49, (appointed Director in 2006)

Zyda joined WHL in 1996 and worked in the finance and store operation teams. She was appointed the People director of WPL in 2005 and was appointed to the WHL Board in August 2006. She is a member of the Risk and Sustainability committees.

Other directorships include: Country Road, WPL, African Capital Portfolio Limited, Open Society Foundation of SA, The National Urban Reconstruction and Housing Agency and the Centre for Justice and Crime Prevention.

8.4 Rationale for Woolworths' proposed acquisition of David Jones

WHL's strategy is to expand its international operations to transform itself into a leading southern hemisphere retailer. WHL believes that, with its strong portfolio of brands that can be taken across geographies, an enlarged group with greater exposure in apparel will provide it with an ability to compete strongly with global apparel retailers that are entering and expanding their presence in South Africa and Australia.

David Jones is an iconic Australian brand and occupies a similar customer positioning to WHL in South Africa at the premium end of the apparel market, with both businesses enjoying strong aspirational brand identities and a strong alignment of values that put the customer first, offering excellent service and quality.

The combination of WHL and David Jones provides unique advantages that will benefit both companies and their customers. The group's increased scale will drive significant efficiencies and economies through enhanced global sourcing and the ability to leverage common seasonality and fashion trends, improving value for the customer and profitability of the group.

The combination of WHL and David Jones will create a leading southern hemisphere department store operator, comprising:

- 1,151 stores across 16 countries;
- a tangible asset base of approximately R21.4 billion ($A2.4 billion) as at WHL's financial year ended 30 June 2013;[20]
- sales of over ZAR51 billion ($A5.7 billion) for WHL's financial year ended 30 June 2013;[21]
- an apparel and homeware offering contributing approximately 65% of combined group sales, based on management estimates;[22]
- total sales generated in Australasia of approximately 43%; and
- the potential to generate substantial operational synergies.

WHL will become one of the largest companies listed on the JSE and will retain its headquarters in Cape Town, South Africa.

8.5 Intentions of Woolworths if the Scheme is implemented

(a) Intentions generally

This Section 8.5 sets out WHL's present intentions on the basis of facts and information concerning David Jones and the general business environment which are known to WHL at the time of preparation of this Scheme Booklet. Final decisions on these matters will only be made by WHL in light of all material facts and circumstances at the relevant time. Accordingly, the statements set out in this Section 8.5 are statements of current intention only and may change as new information becomes available or as circumstances change.

References in this Section 8.5 to the intentions of WHL include reference to Vela Investments' intentions.

(b) Review of operations

If the Scheme is implemented, WHL intends to undertake a general review of David Jones' operations covering strategic, financial and operating matters.

Any final decisions as to WHL's intentions for David Jones would only be finalised following this review. However, based on information available to WHL at the date of this Scheme Booklet, WHL believes it can realise value through the combination of WHL and David Jones over time, through a number of key initiatives:

- profitable expansion of the David Jones private label product offering and the introduction or expansion of the WHL brands within David Jones stores;
- continuing to provide a strong platform for independent brands;
- overall group profitability improvement through increased volumes and group-wide lower cost sourcing;

[20] AUD figures for David Jones are converted at the ZAR/AUD exchange rate of 9.04, the exchange rate at 27/07/2013, being the end of David Jones' financial year for 2013. AUD figures for Country Road are converted at the ZAR/AUD exchange rate of 9.01, the exchange rate at 30/06/2013, being the end of WHL's financial year for 2013. This pro forma combination does not calendarise David Jones' results to WHL's year-end or vice-versa, or adjust tangible assets for the goodwill created on acquisition.

[21] AUD figures for David Jones are converted at the ZAR/AUD exchange rate of 9.12, the daily average of the exchange rate from 29/07/2012 to 27/07/2013, being the 52 week period of David Jones' financial year for 2013. AUD figures for Country Road are converted at the ZAR/AUD exchange rate of 9.05, the daily average of the exchange rate from 25/06/2012 to 30/06/2013, being the 53 week period of WHL's financial year for 2013. This pro forma combination does not calendarise David Jones' results to WHL's year-end or vice-versa.

[22] See note 21.

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- an improved loyalty offering based on existing WHL knowledge and expertise (including enhanced use of customer data for store and product decisions);
- significantly increasing omni-channel[23] initiatives and presence, including enhancing the performance of David Jones' online sales;
- roll out of successful village format stores; and
- enhanced productivity through better profiling and allocation systems and processes.

Based on information available to WHL as at the date of this Scheme Booklet, the above initiatives are expected to deliver synergies of at least R1.4 billion (A$130 million) in earnings before interest and tax (**EBIT**) per annum within five years after the proposed acquisition of David Jones under the Scheme.

(c) David Jones to be delisted

If the Scheme is implemented, WHL will cause David Jones to request ASX to remove David Jones from its official list. Following delisting, investors will no longer be able to acquire or trade in David Jones Shares.

(d) Board and management

WHL recognises the knowledge and experience of the David Jones senior management team and looks forward to working with them following implementation of the Scheme towards the achievement of the key strategies identified above.

WHL intends to reconstitute the David Jones Board to comprise representatives of WHL and certain members of David Jones' senior management to be determined following implementation, with consequential changes to the boards of David Jones' subsidiaries.

(e) Employees

WHL considers David Jones' employees to be an integral part of the business' success. Subject to the general review to be undertaken following implementation, WHL does not have any present intention to make any changes to David Jones' current staffing.

(f) Owned (freehold) property portfolio

WHL intends to review alternatives with respect to the owned (freehold) property portfolio of David Jones once further information on any property related matters is made available to WHL.

(g) Other intentions

Other than as set out in this Section 8.5, WHL has no current intention to make major changes to, or dispose of any parts of, David Jones' business.

8.6 Woolworths Shareholder Approvals

WHL is listed on the JSE and is therefore subject to the JSE Listings Requirements. This gives rise to certain shareholder approvals as set out in this Section 8.6. WHL has convened the Woolworths Shareholder Meeting to be held on 17 June 2014 and has sent to its shareholders an information circular as required under the JSE Listings Requirements. A copy of the WHL Category 1 Transaction Circular is available from www.woolworthsholdings.co.za.

Approval of the Transaction

The Scheme is classified as a Category 1 transaction for WHL under the JSE Listings Requirements. It is therefore subject to approval by an ordinary majority (50% plus one vote) of shares present and voting at the Woolworths Shareholder Meeting.

Approval of certain matters pertaining to implementation of the Woolworths Rights Offer

The Scheme is to be funded in part by an equity bridge facility which will be paid down by the proceeds raised under the Woolworths Rights Offer described below in Section 8.7. The equity bridge facility is therefore conditional on, among other things, the Woolworths Rights Offer being able to proceed and all relevant approvals being obtained.

In order to implement the Woolworths Rights Offer, WHL requires a special majority (75%) approval by WHL shareholders of certain matters pertaining to implementation of the Woolworths Rights Offer at the Woolworths Shareholder Meeting.

Full details of the specific resolutions required to be adopted at the Woolworths Shareholder Meeting and information provided to WHL shareholders is provided in WHL's disclosure to its shareholders in the WHL Category 1 Transaction Circular dated 16 May 2014, available on the Woolworths website at www.woolworthsholdings.co.za.

8.7 Funding arrangements for Scheme Consideration

Unless otherwise specified, this Section 8.7 uses an indicative forward exchange rate of ZAR9.95:A$1.

(a) Overview

If the Scheme becomes Effective and is implemented, holders of David Jones Shares will receive the Scheme Consideration of A$4.00 per David Jones Share held on the Scheme Record Date (currently expected to be Thursday 10 July 2014). Based on the number of David Jones Shares on issue as at the Last Practicable Date, the maximum amount of cash payable by Vela Investments to holders of David Jones Shares in connection with the Scheme will be approximately A$2.15 billion.

WHL and Vela Investments intend to fund the Scheme Consideration with a combination of sources of consideration comprising:

(1) ZAR10.0 billion (approximately A$1.0 billion) from the combination of (i) WHL Cash (as defined and more fully described in Section 8.7(b)) and (ii) to the extent that the WHL Cash available to fund the Scheme Consideration is less than ZAR10 billion on or about the Scheme Record Date, the proceeds of a utilisation of the ZAR Senior Facilities (as defined and more fully described in Section 8.7(c));

(2) A$400 million (approximately ZAR4.0 billion) from the proceeds of a utilisation under the AUD Bridge Facility (as defined and more fully described in Section 8.7(c)); and

(3) for the balance of the Scheme Consideration, from the proceeds of a utilisation under the Equity Bridge Facility (as defined and more fully described in Section 8.7(c)).

Subject to the terms and conditions of the syndicated facility agreements described in Section 8.7(c), the total amount of debt finance available to Vela Investments and WHL, when aggregated with the WHL Cash, is sufficient for Vela Investments to pay the Scheme Consideration in accordance with the terms of the Scheme.

The Scheme is not conditional on WHL or Vela Investments obtaining debt finance to fund the payment of the Scheme Consideration. Accordingly, the description of WHL's and Vela Investments' funding arrangements in this Section 8.7 is provided for information purposes only, to describe the arrangements that WHL and Vela Investments have in place to fund the payment of the Scheme Consideration if the Scheme becomes Effective.

[23] Synchronised operating model in which all of the company's channels are aligned and present a single face to the customer, along with one consistent way of doing business.

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(b) WHL Cash

WHL intends to partially fund the Scheme Consideration from internally generated cash from operations of the WHL Group in the sum of up to approximately ZAR10.0 billion (approximately A$1.0 billion) (**WHL Cash**). To the extent that the WHL Cash available for utilisation is less than ZAR10 billion on or about the Scheme Record Date, WHL will apply the proceeds of a utilisation of the ZAR Senior Facilities to fund such shortfall.

WHL intends to apply the WHL Cash, together with the proceeds of utilisations under the Equity Bridge Facility and (to the extent necessary) the ZAR Senior Facilities in providing funds to Osiris Holdings (which, in turn, will provide funds to Vela Investments) for total cash consideration of ZAR18.7 billion (approximately A$1.9 billion).

(c) Debt finance arrangements

Certain members of the WHL Group have entered into:

(1) an unsecured syndicated facility agreement dated 11 May 2014 with, among others, Citibank, N.A., London Branch, J.P. Morgan Limited and The Standard Bank of South Africa Limited (as mandated lead arrangers and bookrunners) and Citibank, N.A., South Africa Branch, JP Morgan Chase Bank, N.A., Johannesburg Branch and The Standard Bank of South Africa Limited (as underwriters) for the provision of a short term equity bridge facility in a principal amount of up to ZAR11.0 billion (approximately A$1.1 billion) (**Equity Bridge Facility**); and

(2) an unsecured syndicated facility agreement dated 11 May 2014 with, among others, Citibank, N.A., London Branch, J.P. Morgan Limited and The Standard Bank of South Africa Limited (as mandated lead arrangers and bookrunners) and Citibank, N.A., South Africa Branch, JP Morgan Chase Bank, N.A., Johannesburg Branch and The Standard Bank of South Africa Limited (as underwriters) for the provision of certain debt facilities comprising a ZAR10.0 billion (approximately A$1.0 billion) bullet term facility (**ZAR Senior Facilities** and together with the Equity Bridge Facility, the **ZAR Facilities**). The ZAR Senior Facilities will be used to (i) refinance an existing short term facility drawn down by the WHL Group to fund its working capital commitments, and (ii) settle a portion of the Scheme Consideration to the extent that the WHL Cash available to fund the Scheme Consideration is less than ZAR10.0 billion.

In addition, WHL, Osiris Holdings and Vela Investments have entered into an unsecured syndicated facility agreement dated 12 May 2014 with, among others, Citibank, N.A., London Branch and J.P. Morgan Australia Limited (as mandated lead arrangers and bookrunners) and Citibank, N.A., Sydney Branch and JP Morgan Chase Bank, N.A. (as underwriters) for the provision of a 364-day bridge facility in a principal amount of up to A$400 million (**AUD Bridge Facility** and together with the ZAR Facilities, the **Facilities** and each, a **Facility**).

The Equity Bridge Facility and AUD Bridge Facility are made available to WHL or Vela Investments (as applicable) for the purposes of, among other things, funding a portion of the Scheme Consideration and funding payment of fees, costs and expenses incurred by the WHL Group in connection with the Scheme and the Facilities.

Conditions precedent to the availability of the Facilities

To ensure that WHL and Vela Investments have sufficient funds available to pay the Scheme Consideration, the lenders have agreed that there will be certainty as to the availability of the Facilities, subject only to:

(1) there being no breach of certain material representations;

(2) no material default subsisting;

(3) no change of control of WHL (and, in respect of the AUD Bridge Facility, Vela Investments) occurring;

(4) it not being illegal for a lender to perform any of its obligations in respect of the Facilities or to fund a utilisation of a Facility; and

(5) satisfaction of certain conditions precedent, which include:

  (A) confirmation by an authorised officer of WHL that, among others, the Scheme will be implemented in accordance with the Scheme Implementation Deed, the Scheme has been approved by order of the Federal Court under section 411(4)(b) of the Corporations Act and all conditions precedent under the Scheme Implementation Deed have been or will be satisfied on first utilisation of the Facilities;

  (B) no waiver of the 'Material Adverse Change' or 'Force Majeure Event' conditions precedent of the Scheme Implementation Deed prior to the Second Court Date and no amendment or waiver of the Scheme Implementation Deed in a manner which could reasonably be expected to be materially adverse or materially prejudicial to the interests of the finance parties;

  (C) in respect of the AUD Bridge Facility, evidence that Vela Investments has been capitalised from the proceeds of utilisations by WHL under the Equity Bridge Facility and by the WHL Cash;

  (D) the Standby Underwriting Agreement in respect of the proposed Woolworths Rights Offer remaining valid and in effect (the Standby Underwriting Agreement itself is subject to customary conditions, including (a) obtaining the Woolworths Shareholder Approvals; (b) the Scheme Implementation Deed remaining in force; (c) customary due diligence by the underwriter; (d) no 'Force Majeure Event'; and (e) no change of control of WHL); and

  (E) satisfaction of other conditions which are procedural in nature and customary for facilities of this kind.

As at the date of this Scheme Booklet, neither WHL nor Vela Investments are aware of the occurrence of, or any circumstance which would lead to, any misrepresentation, breach of undertaking or event of default or which would give rise to a right of any lender to terminate any Facility.

If the conditions described above are satisfied, then the lenders under the Facilities must provide the funds for their portion of the commitment under the Facilities. As at the date of this Scheme Booklet, neither WHL nor Vela Investments are aware of any reason why any of the conditions precedent to the Facilities will not be satisfied, and expect that they will be satisfied, in time to allow payment in full of the aggregate Scheme Consideration when due under the terms of the Scheme.

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As at the date of this Scheme Booklet, Vela Investments is in preliminary discussions with financial institutions to arrange a term facility to either provide funding in substitution for the AUD Bridge Facility or refinance the AUD Bridge Facility. If the term facility is entered into and available for drawdown on or prior to the date on which the Scheme Consideration will be payable under the terms of the Scheme, the term facility may be drawn instead of the AUD Bridge Facility in order to fund the portion of the Scheme Consideration that would otherwise be funded from a drawdown under the AUD Bridge Facility. If the term facility is not available for drawdown by that time the AUD Bridge Facility will be drawn upon in order to fund part of the Scheme Consideration as contemplated in this Scheme Booklet. The AUD Bridge Facility remains fully committed and will only be discontinued if the alternative term facility is entered into prior to the date on which the Scheme Consideration will be payable under the terms of the Scheme and is utilised for that purpose.

Exchange rate movements

The funds available to WHL in the form of the WHL Cash and under the ZAR Senior Facilities and the Equity Bridge Facility are denominated in South African Rand. At the indicative forward exchange rate of ZAR9.95:A$1, such funds, when aggregated, together with the AUD Bridge Facility, total approximately A$2.5 billion, significantly in excess of the amount required for the payment of the Scheme Consideration.

Having regard to the matters set out in this Section 8.7, WHL and Vela Investments are of the opinion that they have a reasonable basis for forming the view, and they hold the view, that Vela Investments will be able to satisfy its payment obligations under the Scheme, as well as its costs associated with the Scheme. This would remain the case even if there were significant adverse movements in the ZAR/A$ exchange rate between the date of this Scheme Booklet and the Implementation Date.

8.8 Interests in David Jones Shares

(a) Interests in David Jones Shares

As at the date of this Scheme Booklet, neither WHL nor any of its associates has any Relevant Interest in any David Jones Shares or any voting power in David Jones.

Except for the Scheme Consideration to be provided under the Scheme, during the period of four months before the date of this Scheme Booklet, neither WHL, Vela Investments, nor any of their associates has provided or agreed to provide consideration for any David Jones Shares under a purchase or other agreement.

During the four months before the date of this Scheme Booklet, neither WHL, Vela Investments, nor any of their associates have given, or offered to give, or agreed to give, a benefit to another person where the benefit was likely to induce the other person, or an associate, to:

(1) vote in favour of the Scheme; or

(2) dispose of David Jones Shares,

where the benefit was not offered to all David Jones Shareholders.

(b) Benefits in connection with retirement from office

There is no payment or other benefit that is proposed to be made or given to any director, secretary or executive officer of David Jones (or its Related Bodies Corporate) as compensation for the loss of or consideration for or in connection with his or her retirement from office in David Jones or any of its Related Bodies Corporate in connection with the Scheme.

Neither WHL nor Vela Investments will be making any payment or giving any benefit to any current member of the David Jones Board as compensation or consideration for, or otherwise in connection with, their resignation from the David Jones Board, if the Scheme becomes Effective and the David Jones Board is accordingly reconstituted.

8.9 Other material information

(a) SARB approval

As outlined in Section 6.6, the Scheme is subject to the approval of the South African Reserve Bank and such approvals, consents and authorisations not having been withdrawn, cancelled or revoked as at 8:00am on the Second Court Date. As noted in Section 12.8, this Condition Precedent has now been satisfied.

(b) FIRB approval

As outlined in Section 6.6, the Scheme is also subject to the approval of the Treasurer under the *Foreign Acquisitions and Takeovers Act 1975* (Cth). As noted in Section 12.8, this Condition Precedent has now been satisfied.

(c) Except as set out in this Section 8, there is no other information regarding Woolworths, or its intentions regarding David Jones, that is material to the making of a decision by a David Jones Shareholder in relation to the Scheme, being information that is within the knowledge of any director of Vela Investments or Woolworths as at the date of this Scheme Booklet, which has not been previously disclosed to David Jones Shareholders.

RISK FACTORS

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9.1 Introduction

In considering the Scheme, David Jones Shareholders should be aware that there are a number of risk factors, general and specific, which may affect the future operating and financial performance of David Jones and the price and/or value of David Jones Shares. Many of these risk factors are currently relevant to David Jones Shareholders and may continue to be relevant to David Jones Shareholders who remain as David Jones Shareholders if the Scheme does not become Effective.

Many of these risk factors are outside the control of David Jones. For example, there can be no certainty that David Jones will achieve its business and commercial objectives or goals or that any forward looking statements in this Scheme Booklet will eventuate.

Additional risks and uncertainties not currently known to David Jones may have a material adverse effect on David Jones' business and the information set out below does not purport to be, nor should it be construed as representing, an exhaustive list of the risks that may affect David Jones.

In deciding whether to vote in favour of the Scheme, David Jones Shareholders should carefully consider the following risk factors. These risk factors do not take into account the individual investment objectives, financial situation, position or particular needs of David Jones Shareholders.

9.2 General risks

(a) Overview of general risks

David Jones is exposed to a number of general risks that could materially adversely affect its assets and liabilities, financial position, profits and prospects and the price and/or value of David Jones Shares. General risks may impact on David Jones in a number of ways, including, for example, by:

- increasing the costs associated with the provision of David Jones' general services;
- causing David Jones' suppliers not to renew their contracts, renewing them on less favourable terms, or other loss of suppliers;
- causing the failure of David Jones' suppliers to meet their obligations under their contracts; and
- prohibiting or deterring the provision of David Jones' general services.

(b) Macro-economic risks

Changes to the general economic conditions both in Australia and internationally may result in a material adverse effect on the assets and liabilities, financial position, profits and prospects of David Jones and the price and/or value of David Jones Shares. These general economic conditions could include any or all of the following:

- fluctuations in international and domestic economic conditions (including fluctuations in interest rates, exchange rates and the level of inflation) which may affect David Jones' business directly or indirectly by affecting the retail industry;
- increases in expenses (including wage inflation);
- changes in law and government policy affecting the retail industry generally; and
- changes to accounting standards which affect the financial performance and position reported in David Jones' financial statements.

9.3 Specific risks relating to David Jones

(a) Market risk

Overall macro-economic factors such as a decline in consumer confidence or an increase in household savings rates could adversely impact retail sales. David Jones also faces a structural change as a result of the internet and growth in online shopping. Online retailing has not only resulted in increased competition, it has also resulted in greater transparency of global pricing. David Jones is working to reduce the price of the international brands it stocks. There is a risk that these price reductions will not be offset by higher volumes.

David Jones' revenues are almost entirely generated from products which are sometimes subject to unpredictable changes in customer preferences. Consequently, a failure by David Jones to predict or respond to any such changes could adversely impact David Jones' future financial performance.

(b) Cost pressures on the David Jones' business

David Jones' cost structure includes a number of components with pre-determined increases (for example lease costs and wages). There is a risk that sales volumes will not increase sufficiently to cover these cost increases.

(c) Competition and new entrants into the Australian market

The Australian retail industry in which David Jones operates is highly competitive, has relatively low barriers to entry and is subject to ever changing customer preferences. David Jones' competitors include other Australian department stores, vertically integrated direct-to-market retailers, online retailers, local independent retailers and international retailers.

Competition is based on a variety of specific factors including merchandise selection, price, parallel importing, international price harmonisation, advertising, new stores, store location, store appearance, product presentation and customer service.

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There has been a number of international fashion retailers (for example Topshop, Zara and H&M) that have entered the Australian market through their own store portfolio. There is a risk that these new entrants will take sales from customers who may otherwise have shopped at David Jones.

David Jones' competitive position may deteriorate as a result of factors including actions by existing competitors, the entry of new competitors or a failure by David Jones to successfully respond to changes in the industry. In addition, a step change increase in competition from online or significant technological changes may impact David Jones' competitive position. Any deterioration in David Jones' competitive position may have an adverse effect on David Jones' future financial performance.

(d) Reputation risk

David Jones relies on the strength of its reputation to retain and attract customers, suppliers and employees, secure lines of credit and gain access to capital. Unethical business practices, negative media exposure and poor project outcomes are all factors which can damage reputation.

(e) People risk

If not managed effectively, David Jones' ability to attract and retain key talent in its management and operational staff could have a negative effect on its reputation and performance. David Jones is also exposed to a health and safety risk concerning its people due to the number of locations and number of people visiting its stores.

(f) Technology risk

Technology is becoming ever more important to the operations of David Jones as it faces the structural changes to the retailing landscape. A failure to implement key technology initiatives could have an adverse impact on David Jones' ability to achieve sales targets.

David Jones is also exposed to cyberattacks or breaches of cybersecurity, as well as other malicious attacks or unintentional security issues which could result in material data security breaches or damage to David Jones' systems.

David Jones maintains a database of confidential customer information. The failure of David Jones to maintain the confidentially of its customer database could result in significant operational, reputational, legal and cost ramifications for David Jones.

(g) Financial and information risk

David Jones can be exposed to financial and information risk if there is a failure to provide adequate, effective and timely financial information to inform decision making.

(h) Regulatory / compliance risk

As an Australian retailer, David Jones operates under a regulated environment, for example in the areas of competition, consumer protection and privacy. Any such regulatory breach could have a material negative impact on David Jones' reputation.

(i) Sustainability and growth of margins

The sustainability of growth in David Jones' revenue and profit and the level of profit margins from operations are dependent on a number of factors, some of which are outside David Jones' control. Margins across David Jones' key product lines of Fashion, Accessories, Beauty and Home may be faced with varying margin pressures, driven by competitor discounting. There is no assurance that the historical financial performance of David Jones is indicative of its future financial performance.

(j) Distribution of key brands

David Jones currently distributes and sells third party brands in Australia under distribution contracts with the respective brand owners. There is a risk that these distribution contracts may be terminated or not renewed upon their expiry. The loss or deterioration of David Jones' relationships with key brand owners, service providers or suppliers, or an inability to renew contractual arrangements with such parties on terms which are not materially less favourable than existing arrangements, is likely to have an adverse effect on David Jones' future financial performance.

(k) Disruption to business operations

David Jones may be exposed to short, medium or long term interruptions to its operations and its suppliers' operations arising from events including, but not limited to, industrial disputes, electricity interruptions, cyberattacks, work stoppages, acts of terrorism, fires, floods, earthquakes, and other disasters, and any disruption resulting from the Scheme process itself, any of which could adversely affect David Jones' future financial performance (particularly if such interruption occurred in David Jones' key trading periods).

(l) Leases of key premises

Whilst David Jones owns its flagship premises in Sydney and Melbourne, it leases the majority of the premises in which its store network operates from a number of different landlords. The leases typically contain a range of restrictions on David Jones' activities at the relevant premises (such as restrictions on structural change or restrictions on sub-leasing or licensing more than a limited amount of space to concession operators without landlord consent), which may restrict David Jones' operating flexibility.

Any default by David Jones in relation to a lease, failure to renew existing leases on acceptable terms or an inability to negotiate alternative arrangements, could materially adversely affect David Jones' ability to operate stores in preferred locations.

In addition, there is a risk that David Jones may become subject to lease terms which are less favourable due to unanticipated changes in the property market or if one or more stores do not achieve the financial performance anticipated at the time of entering into the relevant leases.

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(m) Seasonal trading patterns may change

David Jones' revenue has historically been subject to seasonal trading patterns. Historically, a disproportionate amount of annual revenue has been generated over the Christmas trading period and higher than average monthly revenue has been recorded in the month of June as a result of seasonal sales. David Jones' working capital and inventory planning strategies reflect these seasonal patterns.

Any material decrease in customer demand during peak seasons, particularly during the Christmas period, could result in David Jones being left with a substantial amount of unsold inventory, which may only be sold at significant markdowns. This is likely to have an adverse effect on David Jones' financial performance.

David Jones' operations may also be affected by prolonged periods of abnormal, severe or unseasonable weather conditions which could result in the David Jones' product range being less attractive to customers or adversely impact customer traffic. This could result in reduced revenue and, in turn, have a material adverse impact on David Jones' future financial performance.

(n) Litigation

There are no current litigation matters that are considered likely to have a material adverse effect on David Jones, however there remains a risk that David Jones may be exposed to litigation which could materially impact David Jones' financial performance in the future.

(o) Insurance

Insurance is maintained by David Jones within ranges of coverage consistent with industry practice. However, no assurance can be given that such insurance will be available in the future on commercially reasonable terms or that the cover will be adequate and available to cover all or any future claims. Any inability to access insurance cover may adversely impact David Jones' future financial performance.

(p) Industrial disputes and wage increases

Certain David Jones employees are covered by enterprise bargaining agreements and other workplace agreements, which periodically require renegotiation and renewal. Disputes may arise during such renegotiations which may lead to strikes or other forms of industrial action that could disrupt David Jones' operations. Further, any such renegotiation could result in increased labour costs for David Jones. In times of low unemployment or shortages of skilled employees, there can be upward pressure on wages. If any of these events occur, it may adversely impact David Jones' future financial performance.

(q) Disruption to product sourcing

David Jones sources a proportion of its products from suppliers who manufacture product outside of Australia on behalf of David Jones. As a result, David Jones is subject to risks including political instability, increased security requirements for foreign goods, costs and delays in international shipping arrangements, imposition of taxes and other charges, as well as restrictions in imports, exchange rate and hedging risks.

David Jones is also exposed to risks related to labour practices, environmental matters, disruptions to production and supply of goods and other issues in the foreign jurisdictions where suppliers operate. Any of these risks, individually or collectively, could impact David Jones' future financial performance.

(r) Value of property assets

David Jones owns its flagship premises in Sydney and Melbourne. These premises represent significant assets of David Jones, the value of which is subject to risk including acts of terrorism, fires, floods, earthquakes and other natural or man-made events or occurrences which might damage or otherwise diminish the utility of the premises.

The value of these properties is also subject to commercial property market conditions, and there is no guarantee that future market conditions will reflect current market conditions. Any deterioration in the value of the premises may have an adverse effect on David Jones' future financial performance.

10

TAX CONSIDERATIONS

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The Directors
David Jones Limited
65 – 77 Market Street
Sydney NSW 2000

22 May 2014

Australian tax implications for shareholders arising under the proposed acquisition of David Jones Limited (David Jones) under a scheme of arrangement

Dear Directors

We have been requested to prepare a summary of the Australian tax implications for David Jones Limited shareholders (**David Jones Shareholders**) in relation to the proposed acquisition of shares in David Jones Limited (**David Jones Shares**) by Vela Investments Pty Ltd (**Vela Investments**) under a scheme of arrangement (**Scheme**).

The following summary:

- is based on the Australian taxation law and administrative practices as at the date of the Scheme Booklet;
- is an indicative guide and is not intended to be, and should not be seen as a substitute for personal tax advice;
- is general in nature and the individual circumstances of each David Jones Shareholder may affect the taxation implications arising for that David Jones Shareholder;
- is not intended to be an authoritative or exhaustive statement of the tax legislation applicable to all David Jones Shareholders; and
- only considers the Australian tax implications for David Jones Shareholders who hold David Jones Shares on capital account for Australian tax purposes.

The tax law is complex and is subject to change periodically (including retrospectively), as is the interpretation of the law by the courts and revenue authorities.

Accordingly, David Jones Shareholders should seek their own independent professional advice that considers the taxation implications arising from the disposal of their David Jones Shares taking into account their own specific circumstances.

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This summary does not consider the tax implications for David Jones Shareholders who:

- are in the business of share trading, banking, dealing in securities or otherwise hold shares on revenue account or as trading stock;
- are tax residents of Australia that currently hold, or have held, David Jones Shares as part of an enterprise carried on, at or through a permanent establishment outside of Australia;
- are non-residents of Australia for tax purposes that currently hold, or have held, David Jones Shares as part of an enterprise carried on, at or through a permanent establishment in Australia;
- are financial institutions, insurance companies, listed investment companies, partnerships, tax exempt organisations, trusts (except where expressly stated), superannuation funds (except where expressly stated), or dealers in securities;
- are subject to the Taxation of Financial Arrangement rules contained in Division 230 of the *Income Tax Assessment Act 1997* (**the 1997 Act**) in relation to gains and losses on their David Jones Shares;
- acquired the David Jones Shares through an employee share plan or employee share scheme; or
- are non-residents of Australia for tax purposes who held David Jones Shares at the time when they ceased being tax residents of Australia.

All capitalised terms in this summary have the same meaning as those contained in the Glossary section of the Scheme Booklet, unless the context indicates otherwise.

1. Disposal of David Jones Shares

Australian tax resident David Jones Shareholders

If the Scheme is approved, capital gains tax (**CGT**) event A1 should occur for David Jones Shareholders when they dispose of their David Jones Shares to Vela Investments under the Scheme on the Implementation Date.

David Jones Shareholders should, in respect of each David Jones Share:

- make a capital gain from CGT event A1 if the capital proceeds from the disposal of their David Jones Share is greater than the cost base of their David Jones Share; or
- make a capital loss from CGT event A1 if the capital proceeds from the disposal of their David Jones Share is less than the reduced cost base of their David Jones Share.

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Capital proceeds from the disposal of David Jones Shares

For David Jones Shareholders, the capital proceeds from the disposal of their David Jones Shares should be equal to the Scheme Consideration received of $4.00 for each David Jones Share held on the Scheme Record Date.

Cost base or reduced cost base in David Jones Shares

For David Jones Shareholders, the cost base or reduced cost base of their David Jones Shares should generally be the amount paid (or deemed to be paid) to acquire the David Jones Shares, as well as incidental costs (if any) incurred in relation to the acquisition or disposal of the David Jones Shares.

Where the David Jones Shares were acquired before 11.45am (Australian Eastern Standard Time) on 21 September 1999, David Jones Shareholders may choose to increase the cost base of the David Jones Shares for indexation based on the CPI movement from the date of acquisition to 30 September 1999.

The reduced cost base in David Jones Shares cannot be indexed.

David Jones Shareholders who are individuals, trusts or complying superannuation funds that acquired their interests prior to 11.45am (Australian Eastern Standard Time) on 21 September 1999 can choose either to apply cost base indexation or to obtain the CGT discount concession in calculating their taxable capital gain from the disposal of their David Jones Shares (see below for details). However, choosing to increase the cost base in David Jones Shares on account of indexation will prevent eligible shareholders from accessing the CGT discount treatment on capital gains.

Where the David Jones Shares were acquired after 11.45am on 21 September 1999 (Australian Eastern Standard Time), it is not possible to index the cost base in the David Jones Shares.

David Jones Shareholders who are eligible to apply the cost base indexation method should seek their own independent professional tax advice in relation to the computation of the cost base in their David Jones Shares.

CGT discount on capital gains

A David Jones Shareholder who is an individual, complying superannuation fund or a trust, and who has held their David Jones Shares for at least 12 months prior to the date of disposal, should be able to reduce any capital gain on the disposal of their David Jones Shares by the CGT discount provided that the David Jones Shareholder has not elected to index their cost base (see above).

Where the CGT discount rules apply, the rules should enable a net capital gain (i.e. after the application of current and prior year capital losses) arising from the disposal of David Jones Shares to be reduced as follows:

- 50% for individuals and trusts; and
- 33 1/3% for complying superannuation entities.

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The CGT discount concession is not available to companies (including corporate beneficiaries of trusts).

Capital losses

Capital gains and capital losses of a taxpayer are aggregated to determine whether a taxpayer has a net capital gain or net capital loss for that income year.

Any net capital loss is not deductible from the assessable income of a David Jones Shareholder, instead it may be able to be carried forward to future income years and may be able to be offset against capital gains in future years (subject to the satisfaction of various requirements).

David Jones Shareholders should seek their own independent professional tax advice in relation to the operation of these rules.

David Jones Shareholders who are non-resident for Australian tax purposes

Non-resident David Jones Shareholders should not be subject to Australian income tax on the disposal of their David Jones Shares under the Scheme unless the David Jones Shares are "taxable Australian property" (**TAP**).

The David Jones Shares will be TAP where both of the below tests are satisfied:

(a) the David Jones Shareholder (and any associates) owned at least 10% of David Jones either at the time the David Jones Shares were disposed of or for at least 12 months during the 24 months before David Jones Shares were disposed of (**the non-portfolio interest test**); and

(b) 50% or more of the value of David Jones is represented by real property in Australia (**the principal asset test**).

Accordingly, where the David Jones Shares giving rise to the capital gain satisfy the non-portfolio interest test outlined in (a) above, non-resident David Jones Shareholders should seek their own independent professional tax advice on the consequences of participating in the Scheme.

2. Stamp duty

David Jones Shareholders should not be required to pay any stamp duty on the disposal of their David Jones Shares to Vela Investments.

3. Goods and Services Tax ("GST")

The disposal of David Jones Shares by David Jones Shareholders under the Scheme should not attract GST. However, the ability of David Jones Shareholders to claim input tax credits of any GST included in the cost incurred on acquisitions (if any) related directly or indirectly to the disposal of shares may be restricted.

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This is a complex area of the GST law and GST registered David Jones Shareholders should seek their own independent professional tax advice in this regard.

4. Disclaimer

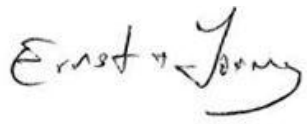
This summary does not constitute financial product advice as defined in the *Corporations Act 2001*. This summary is confined to taxation issues and is only one of the matters you need to consider when making a decision about your investments. You should consider taking advice from a licensed adviser, before making a decision about your investments. The partnership of Ernst & Young is not required to hold an Australian Financial Services Licence under the *Corporations Act 2001* to provide you with this taxation advice.

We consent to the inclusion of this letter in the Scheme Booklet. This consent has not been withdrawn at the date of this letter.

We have not caused and take no responsibility for the publication of any part of the Scheme Booklet in which this letter appears, other than this letter itself.

* * * *

Yours sincerely



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11

INFORMATION RELATING TO DAVID JONES DIRECTORS

11.1 Interests of David Jones Directors

(a) David Jones Directors' Relevant Interests in David Jones Shares

As at the date immediately before the date of this Scheme Booklet, the David Jones Directors had the following Relevant Interests in David Jones Shares:

DAVID JONES DIRECTOR	NUMBER OF DAVID JONES SHARES	NUMBER OF PERFORMANCE RIGHTS
Gordon Cairns	Nil	Nil
Paul Zahra	1,274,676 (direct)	635,000
Jane Harvey	Nil	Nil
Philippa Stone	29,754 (indirect)	Nil
Melinda Conrad	Nil	Nil

(b) David Jones Directors' dealings in David Jones Shares

No David Jones Director acquired or disposed of a Relevant Interest in any David Jones Shares in the four month period ending on the date immediately before the date of this Scheme Booklet.

11.2 Interests and dealings in Woolworths Group securities (including Vela Investments securities)

(a) Interests in Woolworths Group securities

As at the date immediately before the date of this Scheme Booklet, no David Jones Director had a Relevant Interest in any securities in Woolworths Group (including securities in Vela Investments).

(b) Dealings in Woolworths Group securities

No David Jones Director acquired or disposed of a Relevant Interest in any securities in Woolworths Group (including securities in Vela Investments) in the four month period ending on the date immediately before the date of this Scheme Booklet.

11.3 Benefits and agreements

(a) Benefits in connection with retirement from office

No payment or other benefit is proposed to:

- be made or given to any director, company secretary or executive officer of David Jones as compensation for the loss of, or as consideration for or in connection with his or her retirement from, office in David Jones or in a Related Body Corporate of David Jones; or
- be made or given to any director, company secretary or executive officer of any Related Body Corporate of David Jones as compensation for the loss of, or as consideration for or in connection with his or her retirement from, office in that Related Body Corporate of David Jones or in David Jones,

in connection with the Scheme, other than in his or her capacity as a David Jones Shareholder.

(b) Agreements connected with or conditional on the Scheme

Other than as set out in Section 12.1 in relation to the impact of the Scheme on the David Jones incentive plans, there are no agreements or arrangements made between any David Jones Director and any other person in connection with, or conditional on, the outcome of the Scheme, other than in their capacity as a David Jones Shareholder.

(c) Interests of David Jones Directors in contracts with the Woolworths Group (including Vela Investments)

None of the David Jones Directors has any interest in any contract entered into by a member of the Woolworths Group (including Vela Investments), or any Related Body Corporate of any member of the Woolworths Group, other than in their capacity as a David Jones Shareholder.

(d) Benefits from the Woolworths Group (including Vela Investments)

None of the David Jones Directors has agreed to receive, or is entitled to receive, any benefit from any member of the Woolworths Group (including Vela Investments), or any Related Body Corporate of a member of the Woolworths Group which is conditional on, or is related to, the Scheme, other than in their capacity as a David Jones Shareholder.

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ADDITIONAL INFORMATION

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12.1 Impact of the Scheme on the David Jones incentive plans

Conditional on the Scheme being implemented, Performance Rights under the Long Term Incentive Plan and the Short Term Incentive Plan will be treated as set out below:

(a) Long Term Incentive Plan (LTIP)

Awards have been made, and not yet vested, under the:

- FY 2013-2015 Executive Long-Term Incentive Plan (for which approximately 2/3 of the performance period has elapsed); and
- FY 2014-2016 Executive Long-Term Incentive Plan (for which approximately 1/3 of the performance period has elapsed),

(collectively, **LTIP**).

In the absence of the David Jones Board exercising its power under the LTIP terms described below, Performance Rights under the LTIP would, in respect of the Scheme:

- be tested against two performance hurdles (Relative Total Shareholder Return (**TSR**) growth and Compound Earnings Per Share (**EPS**) growth) for the pro rata performance period – that is from the beginning of the relevant performance period until the Implementation Date of the Scheme; and
- to the extent that the performance hurdles were met, vest pro rata to that portion of the performance period which had expired.

Conscious of executive retention risk, the David Jones Board noted that the LTIP outcome described above would cause the relevant employees to forego the future opportunity to have, respectively, the remaining 1/3 (of the FY 2013-15 plan) and 2/3 (of the FY 2014-16 plan) of their LTIP Performance Rights vest. In order to incentivise employees to keep up the momentum of David Jones' business in the months pending the Scheme vote, a vesting condition over which employees would have more direct control by focusing on the business during those months was seen as preferable to the existing performance hurdles which had been designed for the longer term.

David Jones' best estimate (as at the date immediately prior to the date of this Scheme Booklet) is that:

- the TSR performance hurdle could have been satisfied for the FY 2013-15 plan but that the EPS performance hurdle could not have been satisfied for the FY 2013-15 plan.
- the TSR performance hurdle and also the EPS performance hurdle could have been satisfied for the FY 2014-2016 plan.

On this basis, approximately 1/3 of the FY 2013-15 plan (comprising the TSR allocation only for the pro rata period) and 1/4 of the FY 2014-16 plan (comprising both the TSR component for the pro rata period and also 50% of the EPS component for the pro rata period) could vest, if the David Jones Board applied the LTIP terms described in this Section 12.1(a) above without exercising any further discretion as described below.

Accordingly, the David Jones Board exercised a power it has under the LTIP rules so that, conditional on the Scheme being implemented and short term financial budget targets being met, the potential LTIP entitlement will vest pro rata to the portion of the relevant LTIP period which has elapsed as at the Implementation Date provided that the relevant employee has not given notice of resignation.

The Shares which may vest will be capped so that all such vesting can be satisfied by unallocated Shares in the David Jones Incentive Plan Trust (a trust relating to a superseded plan which holds approximately 1.2 million Shares for the benefit of employees) with the result that no new Shares need to be issued to implement the LTIP vesting.

Should the Scheme not proceed, the LTIP performance hurdles will remain as specified in the 2013 David Jones Remuneration Report and the notices of meeting for the 2012 and 2013 Annual General Meeting with respect to the LTIP allocation of the CEO.

The effect of the Scheme under the LTIP (with the David Jones Board exercising the power described above) is that, assuming short term budget measures are met and the Scheme proceeds:

- of the 2,035,000 LTIP Performance Rights currently on issue, up to 1,011,667 will vest; and
- of the CEO's 635,000 LTIP Performance Rights (these being a sub-set of the total number of LTIP Performance Rights currently on issue), up to 311,667 will vest.

If the Scheme becomes Effective, then holders of Performance Rights will be allocated from the Trust the number of Shares equivalent to the number of Performance Rights which vest to the relevant individual on the basis set out above. In practical terms, this means that after the Effective Date but prior to the Scheme Record Date, the number of Shares which vest will be transferred to the relevant employee. Those Shares will then participate in the Scheme, that is, the consideration of A$4.00 for each such Share will be payable to the relevant employee in return for the transfer of their Shares.

The Trustee of the David Jones Incentive Plan Trust intends to vote the Shares held in the Trust in favour of the Scheme Resolution.

(b) Short Term Incentive Plan

Approximately 850 employees are eligible to participate in the current financial year's short term incentive plan (**STIP**). Any award under that plan would normally be tested after the end of the 2014 financial year, based on David Jones' performance against its annual profit after tax targets (**PAT**).

Since, subject to the satisfaction or waiver of all relevant Conditions Precedent, the Implementation Date may occur before the end of the 2014 financial year, the David Jones Board exercised its discretion to test under the STIP rules as follows:

- the FY2014 STI payment will be payable with effect from the Effective Date of the Scheme and based on the actual or, if the Effective Date is prior to 26 July 2014, projected PAT position as at that date;
- the STI multiplier (of which the relevant executive committee member is notified in writing prior to the commencement of the relevant STI plan year, pursuant to the terms of their employment contract) will be applied to the extent that PAT exceeds the approved budget disregarding transaction costs relating to the Scheme and one-off items; and
- the full incentive amount will be paid in cash (that is, there will be no deferral of a percentage of the STIP by issuing Share-based Performance Rights as has occurred in prior years).

This David Jones Board determination is conditional on the Scheme becoming Effective and the relevant employee not having given notice of resignation at the Implementation Date. If the Scheme does not become Effective, there will be no change to the STIP, which will remain as described in the 2013 David Jones Remuneration Report.

A small number (approximately 6,000) of rights to Shares on a deferred basis exist in respect of last year's STIP, which the employees concerned have the right to receive if they remain employed at the end of the current financial year. Under their terms, these Shares vest automatically on a change of control.

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The effect of the Scheme under the STIP as described above is that, assuming the Scheme becomes Effective:

- it is estimated that this will result in an aggregate payment to the approximately 850 employees who participate in the STIP of approximately A$17.5 million; and
- of that figure, it is estimated that the CEO would receive A$1.45 million.

12.2 Scheme Implementation Deed

(a) Overview

David Jones, Vela Investments and Woolworths entered into the Scheme Implementation Deed on 9 April 2014. The key terms of the Scheme Implementation Deed are summarised below.

A full copy of the Scheme Implementation Deed is contained in Annexure C.

(b) Conditions Precedent

Implementation of the Scheme is subject to the Conditions Precedent which must be satisfied or waived (as applicable).

The Conditions Precedent are:

- South African Reserve Bank approval;
- Woolworths Shareholder Approvals;
- Foreign Investment Review Board notice of no objections to the Scheme;
- approval by the Federal Court;
- approval by the David Jones Shareholders by the requisite majorities;
- no Prescribed Occurrences occurring;
- no Material Adverse Change occurring;
- no Force Majeure Event occurring; and
- no regulatory restraints.

For full details of the Conditions Precedent, see Section 6.6 and clause 3 of the Scheme Implementation Deed.

(c) Conduct of business

The Scheme Implementation Deed sets out in clause 5 the obligations of David Jones from the date of the Scheme Implementation Deed up to and including the Implementation Date (currently expected to be Thursday 17 July 2014), in relation to the conduct of its business.

Broadly, David Jones has agreed to:

- conduct its business in the ordinary course of business and in a manner generally consistent with the manner in which it was conducted in the 12 month period prior to the date of the Scheme Implementation Deed and in accordance with all applicable laws in all material respects;
- not settle any litigation when the settlement payable exceeds A$5,000,000;
- make reasonable endeavours to retain the services of the directors, officers and Relevant Employees of David Jones;
- maintain and preserve David Jones' relationships with joint venturers, customers, suppliers, investors, Government Agencies, licensors, licensees and others with whom they have business dealings;
- ensure no Prescribed Occurrence occurs; and
- not enter into lines of business which are different from those of a department store business.

These provisions are set out in full in clause 5.5 of the Scheme Implementation Deed.

(d) Exclusivity arrangements

The Scheme Implementation Deed contains certain exclusivity arrangements in favour of Woolworths.

Those exclusivity arrangements are set out in full in clause 8 of the Scheme Implementation Deed.

In summary, David Jones has granted the following exclusivity rights during the Exclusivity Period:

- **Termination of existing discussions** – David Jones must cease any discussions with any Third Party in relation to a potential Competing Proposal and any provision of due diligence access or the making available of any Non-public Information in relation to David Jones to any Third Party where the purpose of the access or provision of Non-public Information was for the purpose of a potential Competing Proposal. David Jones must arrange for the return or destruction of any Non-public Information provided for the purposes of a potential Competing Proposal;
- **No shop** – David Jones must not solicit, initiate or invite any enquiries, discussions or proposals that may lead to an actual, proposed or potential Competing Proposal or communicate to any person any intention to do so;
- **No talk** – David Jones must not participate in or resume discussions or provide information that may lead to an actual, proposed or potential Competing Proposal, unless the David Jones Board determines in good faith after receiving written advice from its legal advisers that failing to respond would be likely to be considered a breach of the fiduciary or statutory duties of the David Jones Directors; and
- **Notification of approach** – subject to the fiduciary exception below, if David Jones becomes aware of an approach in relation to an actual or potential Competing Proposal, the David Jones Board must notify Woolworths of any such approach within two Business Days of becoming aware of such a matter. Such notice must set out reasonable details of the approach, including the key terms of any Competing Proposal (including, if specified, the identity of the person making the Competing Proposal, consideration, conditions, structure, timing, break fee, financing and due diligence requirements).
- **Fiduciary exception** – where a bona fide, written Competing Proposal is made or announced without any breach by David Jones of the above obligations, David Jones may take action that would be prohibited under the "No talk" exclusivity right (clause 8.3 of the Scheme Implementation Deed) or refrain from notifying a matter or identifying a competing bidder as would be required under the "Notification of approach" exclusivity right (clause 8.4 of the Scheme Implementation Deed) if the David Jones Board determines, acting in good faith and after obtaining legal advice, that not doing so would likely result in a breach of the Directors' fiduciary or statutory duties.

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(e) Break Fee

David Jones must pay a break fee of A$22 million (exclusive of GST) where:

- a Competing Proposal involving the acquisition of all or a substantial part of David Jones' business or of an asset representing more than 50% of total assets, or a change of control of David Jones is announced by a Third Party and is completed within 12 months;
- David Jones materially breaches the exclusivity provisions;
- the David Jones Board changes its recommendation (other than where the Independent Expert changes its recommendation) or otherwise recommends or supports a Competing Proposal;
- David Jones materially breaches the Scheme Implementation Deed and does not remedy that breach within 10 Business Days;
- David Jones voluntarily agrees to implement a Competing Proposal; or
- if the David Jones Representations and Warranties are not true and accurate in all material respects and this has an adverse impact of more than A$80 million.

A break fee will not be payable because David Jones Shareholders do not vote in favour of the Scheme.

(f) Cost Reimbursement

Woolworths must pay David Jones' reasonable (external advisory) costs up to a A$5 million cap (exclusive of GST) where:

- Woolworths Shareholder Approvals are not obtained; or
- Woolworths' directors do not recommend that Woolworths shareholders vote in favour of each of the Woolworths Shareholder Resolutions (or subsequently withdraw or qualify their recommendation).

(g) Termination rights

Either David Jones or Woolworths may terminate the Scheme Implementation Deed in the following circumstances after giving the other party written notice within 10 Business Days after the relevant event:

- at any time before 8:00am on the Second Court Date, if the other party commits a material breach of the Scheme Implementation Deed and such breach continues to exist 10 Business Days from being provided notice of such breach by the other party;
- unless waived, one or more Conditions Precedent cannot be satisfied within the relevant time specified in the Scheme Implementation Deed;
- unless waived, one or more Conditions Precedent is breached or not fulfilled; or
- if the Scheme does not become Effective by the End Date.

Woolworths may terminate the Scheme Implementation Deed if before 8:00am on the Second Court Date:

- David Jones materially breaches clause 8 of the Scheme Implementation Deed (the exclusivity provisions);
- a majority of the members of the David Jones Board withdraw or adversely change their Recommendation, make a public statement which is inconsistent with a Recommendation or Voting Intention or recommend, endorse or support any Competing Proposal;
- David Jones voluntarily enters into any agreement or arrangement in relation to the implementation of a Competing Proposal; or
- the David Jones Representations and Warranties were not true and accurate at the time of making and the loss expected to flow from such breach would exceed A$80 million in aggregate or the relevant breach is material in the context of the Scheme taken as a whole and such breach continues to exist 10 Business Days from being provided notice of such breach by Woolworths.

David Jones may terminate the Scheme Implementation Deed if, before 8:00am on the Second Court Date:

- the David Jones Board publicly withdraw or adversely change their Recommendation or recommend a Competing Proposal (provided that David Jones must use its reasonable endeavours to ensure that no David Jones Director withdraws or changes its recommendation unless: a Superior Proposal is made; or the Independent Expert concludes in the Independent Expert's Report that the Transaction is any one or more of: not in the best interests of, not fair, or not reasonable to David Jones Shareholders);
- the board of directors of Woolworths do not recommend that Woolworths shareholders vote in favour of each resolution to be put to Woolworths shareholders at the Woolworths Shareholder Meeting or withdraw or qualify such a recommendation after making it; or
- the Woolworths Representations and Warranties were not true and accurate at the time of making and the loss expected to flow from such breach would exceed A$80 million in aggregate or the relevant breach is material in the context of the Scheme taken as a whole and such breach continues to exist 10 Business Days from being provided notice of such breach by David Jones.

The termination rights are set out in clauses 3.4 and 13 of the Scheme Implementation Deed.

(h) Representations and warranties

Each party has given representations and warranties to the other which can be considered to be customary for an agreement such as the Scheme Implementation Deed.

(i) Guarantee by Woolworths

Woolworths unconditionally and irrevocably guarantees to David Jones the performance of Vela Investments' obligations under the Scheme Implementation Deed and also indemnifies David Jones against all loss incurred by David Jones arising from the default or delay in the performance of Vela Investments' obligations under the Scheme Implementation Deed.

The guarantee extends for so long as Vela Investments has any liability or obligation to David Jones under the Scheme Implementation Deed and until all of those liabilities or obligations have been fully discharged.

12.3 Disputes and litigation

David Jones is from time to time involved in disputes and litigation.

As at the date of this Scheme Booklet, the David Jones Directors do not believe that any member of the David Jones Group is involved in any ongoing litigation or dispute which is material in the context of David Jones and its subsidiaries taken as a whole.

12.4 David Jones Shares

Issued securities

As at the Last Practicable Date, David Jones had on issue:

- 537,137,845 David Jones Shares; and
- 2,035,000 Performance Rights.

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12.5 Substantial holders

Based on filings to the ASX made prior to the Last Practicable Date, the following persons were substantial holders of David Jones Shares:

SUBSTANTIAL HOLDER	NUMBER OF DAVID JONES SHARES	VOTING POWER (%)
The Goldman Sachs Group Inc	49,242,713	9.17%
Deutsche Bank Group	35,958,069	6.69%
BlackRock Group	34,440,202	6.41%

12.6 Consents

(a) Vela Investments Pty Ltd and Woolworths Holdings Limited

Each of Vela Investments Pty Ltd and Woolworths Holdings Limited has given, and not withdrawn before the registration of this Scheme Booklet with ASIC, their written consent to be named in this Scheme Booklet in the form and context in which they are so named and to the inclusion of the Woolworths Information in this Scheme Booklet.

(b) David Jones Share Plans Pty Ltd

David Jones Share Plans Pty Ltd has given, and not withdrawn before the registration of this Scheme Booklet with ASIC, its written consent to be named as the trustee of the David Jones Incentive Plan Trust in the form and context in which it is named. David Jones Share Plans Pty Ltd has had no involvement in the preparation of any part of the Scheme Booklet other than being named. David Jones Share Plans Pty Ltd has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Scheme Booklet. To the maximum extent permitted by law, David Jones Share Plans Pty Ltd expressly disclaims and takes no responsibility for any part of the Scheme Booklet other than a reference to its name.

(c) Grant Samuel & Associates Pty Limited

Grant Samuel & Associates Pty Limited has given, and not withdrawn before the registration of this Scheme Booklet with ASIC, its written consent to be named in this Scheme Booklet in the form and context it is so named and to the inclusion of its Independent Expert's Report as an Annexure B to this Scheme Booklet. Grant Samuel & Associates Pty Limited has not caused or authorised the issue of this Scheme Booklet, does not make or purport to make any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based and takes no responsibility for any part of this Scheme Booklet other than any reference to its name and the Independent Expert's Report contained in Annexure B.

(d) Computershare Investor Services Pty Limited

Computershare Investor Services Pty Limited has given, and not withdrawn before the registration of this Scheme Booklet with ASIC, its written consent to be named in the form and context in which it is named. Computershare Investor Services Pty Limited has had no involvement in the preparation of any part of the Scheme Booklet other than being named. Computershare Investor Services Pty Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Scheme Booklet.

(e) Gresham Advisory Partners Limited

Gresham Advisory Partners Limited consents to being named in this Scheme Booklet as the financial adviser to David Jones in the form and context in which it is named and has not withdrawn its consent before the registration of this Scheme Booklet with ASIC. Gresham Advisory Partners Limited does not make, or purport to make, any statement in the Scheme Booklet or any statement on which a statement in the Scheme Booklet is based. To the maximum extent permitted by law, Gresham Advisory Partners Limited expressly disclaims and takes no responsibility for any part of the Scheme Booklet other than a reference to its name.

(f) Macquarie Capital (Australia) Limited

Macquarie Capital (Australia) Limited consents to being named in this Scheme Booklet as the financial adviser to David Jones in the form and context in which it is named and has not withdrawn its consent before the registration of this Scheme Booklet with ASIC. Macquarie Capital (Australia) Limited does not make, or purport to make, any statement in the Scheme Booklet or any statement on which a statement in the Scheme Booklet is based. To the maximum extent permitted by law, Macquarie Capital (Australia) Limited expressly disclaims and takes no responsibility for any part of the Scheme Booklet other than a reference to its name. Macquarie Capital (Australia) Limited has not authorised or caused the issue of the Scheme Booklet.

(g) Ernst & Young

Ernst & Young has given, and not withdrawn before the registration of this Scheme Booklet with ASIC, its written consent to be named in this Scheme Booklet in the form and context it is so named:

- as auditor of David Jones; and
- as the preparer of the Tax Adviser's Report in Section 10,

and to the:

- incorporation by reference of its audit report with respect to the financial reports of David Jones for the financial years ended 27 July 2013 and 28 July 2012 and its review report with respect to the interim financial report of David Jones for the 26 weeks ended 25 January 2014 in Sections 7.1, 7.2, 7.6 and 7.8; and
- inclusion of the Tax Adviser's Report on the Australian taxation consequences for David Jones Shareholders in Section 10.

Ernst & Young has not caused or authorised the issue of this Scheme Booklet and Ernst & Young does not make or purport to make any statement in this Scheme Booklet (other than its Tax Adviser's Report in Section 10) or any statement on which a statement in this Scheme Booklet is based. Ernst & Young has not been involved in the preparation of the Scheme Booklet and takes no responsibility for any part of this Scheme Booklet other than:

- any reference to its name as described above; and
- its Tax Adviser's Report in Section 10.

(h) Herbert Smith Freehills

Herbert Smith Freehills has given, and not withdrawn before the registration of this Scheme Booklet with ASIC, its written consent to be named in this Scheme Booklet as David Jones' Australian legal adviser in the form and context it is so named. Herbert Smith Freehills has not advised on the laws of any foreign jurisdiction. Herbert Smith Freehills has not provided taxation advice in relation to any jurisdiction. Herbert Smith Freehills has not caused or authorised the issue of this Scheme Booklet, does not make or purport to make any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based and takes no responsibility for any part of this Scheme Booklet other than any reference to its name.

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12.7 Intentions of David Jones Directors

If the Scheme becomes Effective, the existing David Jones Board will be reconstituted in accordance with the instructions of the Woolworths Group after the Implementation Date, which is currently expected to be Thursday 17 July 2014. Accordingly, it is not possible for the Directors to provide a statement of their intentions regarding:

- the continuation of the business of David Jones or how David Jones' existing business will be conducted;
- any major changes to be made to the business of David Jones, including any redeployment of the fixed assets of David Jones; or
- the future employment of the present employees of David Jones,

in each case, after the Scheme is implemented.

If the Scheme is implemented, Vela Investments will own all of the David Jones Shares and Woolworths, as the owner of Vela Investments, will be the ultimate Controller of David Jones. Your Directors have been advised that the intentions of the Woolworths Group (which includes Vela Investments) are as set out in Section 8.

12.8 Status of Conditions Precedent

The Conditions Precedent are discussed in Section 6.6. As at the date of this Scheme Booklet, and as disclosed by Woolworths to the JSE (and David Jones to the ASX):

(a) on 5 May 2014, FIRB informed Woolworths that the Treasurer has no objection to the Scheme; and

(b) on 16 May 2014, the South African Reserve Bank provided its approval in connection with the Transaction.

12.9 Regulatory relief

(a) ASIC modifications

Paragraph 8302(h) of Part 3 of Schedule 8 of the Corporations Regulations requires an explanatory statement to set out whether, within the knowledge of David Jones Directors, the financial position of David Jones has materially changed since the date of the last balance sheet laid before David Jones Shareholders in accordance with sections 314 or 317 of the Corporations Act, being 27 July 2013. ASIC has granted David Jones relief from this requirement so that this Scheme Booklet only need set out whether, within the knowledge of David Jones Directors, the financial position of David Jones has materially changed since 25 January 2014, being the date of its reviewed half year financial statements for the 26 weeks ended 25 January 2014.

(b) ASX waiver

David Jones has applied to ASX for waivers of ASX Listing Rules 6.23.2 and 6.23.3 to permit the early vesting of Performance Rights in the manner described in Section 12.1.

12.10 No unacceptable circumstances

The David Jones Directors believe that the Scheme does not involve any circumstances in relation to the affairs of David Jones that could reasonably be characterised as constituting 'unacceptable circumstances' for the purposes of section 657A of the Corporations Act.

12.11 Foreign jurisdictions

The distribution of this Scheme Booklet outside of Australia may be restricted by law and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may contravene applicable securities laws. David Jones disclaims all liabilities to such persons.

David Jones Shareholders who are nominees, trustees or custodians are encouraged to seek independent advice as to how they should proceed.

No action has been taken to register or qualify this Scheme Booklet or any aspect of the Transaction in any jurisdiction outside of Australia.

12.12 No other material information

Except as set out in this Scheme Booklet, so far as the David Jones Directors are aware, there is no information material to the making of a decision by a David Jones Shareholder in relation to the Scheme, being information that is, within the knowledge of any Director at the date of lodging this Scheme Booklet with ASIC for registration, which has not previously been disclosed to David Jones Shareholders.

12.13 Supplementary disclosure

David Jones will issue a supplementary document to this Scheme Booklet if it becomes aware of any of the following between the date of this Scheme Booklet and the Effective Date:

- a material statement in this Scheme Booklet is false or misleading in a material respect;
- a material omission from this Scheme Booklet;
- a significant change affecting a matter included in this Scheme Booklet; or
- a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if it had arisen before the date of this Scheme Booklet.

Depending on the nature and timing of the changed circumstances, and subject to obtaining any relevant approvals, David Jones may circulate and publish any supplementary document by:

- making an announcement to ASX;
- placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- posting the supplementary document to David Jones Shareholders at their registered address as shown in the Share Register (as applicable); or
- posting a statement on David Jones' website at http://www.davidjones.com.au/For-Investors/ASX-and-Media-Releases,

as David Jones in its absolute discretion considers appropriate.

GLOSSARY AND INTERPRETATION

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13.1 Glossary

The meanings of the terms used in this Scheme Booklet are set out below.

TERM	MEANING
A$** or **$	Australian dollar.
Announcement Date	9 April 2014, being the date of the ASX announcement of the proposed Transaction.
ASIC	the Australian Securities and Investments Commission.
associate	has the meaning given in section 12 of the Corporations Act.
ASX	ASX Limited (ACN 008 624 691) or, where the context requires, the financial market operated by it known as the "Australian Securities Exchange".
AUD Bridge Facility	has the meaning given in Section 8.7(c).
Business Day	has the meaning given in the Listing Rules.
CGT	Australian Capital Gains Tax.
CHESS	the Clearing House Electronic Subregister System operated by ASX Settlement Pty Ltd ABN 49 008 504 532 and ASX Clear Pty Limited ABN 48 001 314 503.
Competing Proposal	any proposal, offer, agreement, arrangement or transaction which is sufficiently detailed and credible to warrant consideration as such by David Jones and which, if entered into or completed, would result in a Third Party (either alone or together with one or more associates) directly or indirectly: 1 acquiring an interest (including an economic interest by way of an equity swap, contract for difference or similar transaction or arrangement) or a Relevant Interest in 20% or more of the David Jones Shares; 2 acquiring, becoming the holder of or having a right to acquire or an economic interest in all or a substantial part of the business, or any material assets, of the David Jones Group (where a material asset of the David Jones Group will include rights in respect of assets representing 50% or more of the value of the David Jones Group's total assets); or 3 otherwise acquiring, acquiring Control of or merging with David Jones or any other member of the David Jones Group, whether by takeover bid, scheme of arrangement, shareholder approved acquisition, capital reduction, share buy-back or repurchase, sale or purchase of assets or interests therein, joint venture, reverse takeover bid, dual-listed company structure, recapitalisation, establishment of a new holding company for the David Jones Group or other synthetic merger, or any other means.
Conditions Precedent	each of the conditions set out in clause 3 of the Scheme Implementation Deed.
Control	has the meaning given in section 50AA of the Corporations Act.
Controller	has the meaning given in section 9 of the Corporations Act.
Corporations Act	the *Corporations Act 2001* (Cth).
Corporations Regulations	the *Corporations Regulations 2001* (Cth).
David Jones	David Jones Limited ACN 000 074 573.
David Jones 2012 Annual Report	the David Jones Annual Report for the financial year ended 28 July 2012, released to the ASX on 17 October 2012.
David Jones 2013 Annual Report	the David Jones Annual Report for the financial year ended 27 July 2013, released to the ASX on 17 October 2013.
David Jones Half Year (1H14) Financial Report	the David Jones Half Year Financial Report for the financial half year ended 25 January 2014, released to the ASX on 19 March 2014.
David Jones Board	the board of directors of David Jones.

TERM	MEANING
David Jones Directors or **Directors**	each member of the David Jones Board.
David Jones Group	collectively, David Jones and each of its Related Bodies Corporate.
David Jones Information	all the information included in this Scheme Booklet, other than: 1 the Independent Expert's Report; 2 the Tax Adviser's Report; and 3 the Woolworths Information.
David Jones Representations and Warranties	the representations and warranties set out in clause 11.3 of the Scheme Implementation Deed.
David Jones Share or **Share**	a fully paid ordinary share in the capital of David Jones.
David Jones Shareholder	a holder of one or more David Jones Shares, as shown in the Share Register.
David Jones Share Registry	Computershare Investor Services Pty Limited ABN 48 078 279 277 of Level 4, 60 Carrington Street, Sydney, NSW 2000 Australia.
Deed Poll	the deed poll dated 10 May 2014 between Woolworths and Vela Investments in respect of the provision of the Scheme Consideration. A copy of the deed poll is contained in Annexure E.
EBIT	earnings before interest and tax.
Effective	means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Federal Court made under section 411(4)(b), in relation to the Scheme.
Effective Date	the date on which a Scheme becomes Effective, which is currently expected to be Thursday 3 July 2014.
End Date	23 September 2014 or such later date as David Jones and Vela Investments agree in writing.
Equity Bridge Facility	has the meaning given in Section 8.7(c).
Exclusivity Period	the period from the date of the Scheme Implementation Deed to the earlier of: 1 the termination of the Scheme Implementation Deed; and 2 the End Date.
Facility or **Facilities**	has the meaning given in Section 8.7(c).
Federal Court	the Federal Court of Australia (New South Wales registry).
Financial Adviser	any financial adviser retained by David Jones in relation to the Scheme or a Competing Proposal from time to time.
FIRB	Foreign Investment Review Board.
First Court Date	the first day on which an application made to the Federal Court for orders under section 411(4)(b) of the Corporations Act directing David Jones to convene the Scheme Meeting is heard (or if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard), with such hearing being the **First Court Hearing**.
Force Majeure Event	has the meaning given in Schedule 1 of the Scheme Implementation Deed as contained in Annexure C. A summarised definition is contained in Section 6.6.
Government Agency	means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal, statutory or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state, or any other federal, state, provincial, local or other government, whether foreign or Australian. It also includes any self-regulatory organisation established under statute or otherwise discharging substantially public or regulatory functions (including ASIC and the Takeovers Panel), the South African Reserve Bank and any stock exchange (including ASX and JSE).
GST	has the meaning given in *A New Tax System (Goods and Services Tax) Act 1999* (Cth).
Implementation Date	the fifth Business Day after the Scheme Record Date or such other date as agreed in writing by Woolworths and David Jones, which is currently expected to be Thursday 17 July 2014.
Independent Expert	the independent expert in respect of the Scheme appointed by David Jones, being Grant Samuel & Associates Pty Limited (ACN 050 036 372).
Independent Expert's Report	the report in respect of the Scheme prepared and issued by the Independent Expert for inclusion in the Scheme Booklet (or any update or variation to that report). A copy of the Independent Expert's Report is contained in Annexure B.

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TERM	MEANING
Insolvency Event	means, in relation to any entity: 1 the entity resolving that it be wound up or a court making an order for the winding up or dissolution of the entity; 2 a liquidator, provisional liquidator, administrator, receiver, receiver and manager or other insolvency official being appointed to the entity or in relation to the whole, or a substantial part, of its assets; 3 the entity executing a deed of company arrangement; 4 the entity is or becomes unable to pay its debts when they fall due within the meaning of the Corporations Act (or, if appropriate, legislation of its place of incorporation) or is otherwise presumed to be insolvent under the Corporations Act unless the entity has, or has access to, committed financial support from its parent entity such that it is able to pay its debts; or 5 the entity being deregistered as a company or otherwise dissolved.
Interim Dividend	the fully franked interim dividend of 10.0 cents per David Jones Share announced to the ASX on 19 March 2014.
IRESS	IRESS Limited ACN 060 313 359.
JSE	JSE Limited, or, where the context requires, the financial market operated by it known as the "Johannesburg Stock Exchange".
JSE Listings Requirements	the official listings requirements of JSE.
Last Practicable Date	20 May 2014, being the date prior to the provision of this Scheme Booklet to the Federal Court.
Listing Rules	the official listing rules of ASX.
Material Adverse Change	has the meaning given in Schedule 1 of the Scheme Implementation Deed. A summarised definition is contained in Section 6.6.
Non-public Information	has the meaning given in Schedule 1 of the Scheme Implementation Deed as contained in Annexure C.
Notice of Scheme Meeting	the notice of meeting relating to the Scheme Meeting to be held on Monday 30 June 2014 which is contained in Annexure F.
Osiris Holdings	Osiris Holdings Pty Ltd ACN 168 919 391.
Performance Rights	performance rights issued under: 1 the David Jones Limited FY13-15 Executive Long-Term Incentive Plan and the FY14-16 Executive Long-Term Incentive Plan; and 2 the plan described under the David Jones Limited Incentive Plan Policy and which, in respect of the deferred share component of that plan, is governed by the David Jones Limited FY2014 Incentive Plan Performance Rights Terms.
Prescribed Occurrence	has the meaning given in Schedule 1 of the Scheme Implementation Deed as contained in Annexure C. A summarised definition is contained in Section 6.6.
Recommendation	has the meaning given in clause 7.1(a) of the Scheme Implementation Deed as contained in Annexure C.
Related Body Corporate	has the meaning given in section 50 of the Corporations Act.
Relevant Employee	means any officer, director, executive or employee of the David Jones Group whose total employee cost exceeds A$500,000.
Relevant Interest	has the meaning given in sections 608 and 609 of the Corporations Act.
Representative	means, in respect of a party, an employee, agent, officer, director, adviser or financier of that party (or of a Related Body Corporate of that party), and, in the case of advisers and financiers, includes employees, officers and agents of the adviser or financier (as applicable).
SARB	South African Reserve Bank.
Scheme	a members' scheme of arrangement under Part 5.1 of the Corporations Act between David Jones and the Scheme Shareholders under which David Jones Shares will be transferred to Vela Investments substantially in the form of Annexure D, subject to any alterations or conditions made or required by the Federal Court under section 411(6) of the Corporations Act.
Scheme Booklet	this scheme booklet, including the annexures to it.
Scheme Consideration	the A$4.00 cash consideration to be provided to each Scheme Shareholder for the transfer to Vela Investments of each Scheme Share, in accordance with clause 4 of the Scheme Implementation Deed and the terms of the Scheme.
Scheme Implementation Deed	the scheme implementation deed dated 9 April 2014 (as amended) between David Jones, Vela Investments and Woolworths relating to the implementation of the Scheme. A copy of the Scheme Implementation Deed is contained in Annexure C.

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TERM	MEANING
Scheme Meeting	the meeting of David Jones Shareholders ordered by the Federal Court to be convened at the First Court Hearing.
Scheme Meeting Proxy Form	the proxy form for the Scheme Meeting to be held on Monday 30 June 2014 which accompanies this Scheme Booklet.
Scheme Record Date	7:00pm on the fifth Business Day after the Effective Date of the Scheme, which is currently expected to be Thursday 10 July 2014.
Scheme Resolution	the resolution set out in the Notice of Scheme Meeting to agree to the terms of the Scheme.
Scheme Share	a David Jones Share held by a Scheme Shareholder as at the Scheme Record Date.
Scheme Shareholders	David Jones Shareholders as at the Scheme Record Date.
Second Court Date	the first day on which an application made to the Federal Court for orders under section 411(4)(b) of the Corporations Act approving the Scheme is heard (or if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard), with such hearing being the **Second Court Hearing**.
Share Register	the register of David Jones Shareholders maintained in accordance with the Corporations Act.
Standby Underwriting Agreement	the standby underwriting agreement in respect of the Woolworths Rights Offer dated 8 April 2014 and entered into between WHL and J.P. Morgan Securities plc, Citigroup Global Markets Limited and The Standard Bank of South Africa Limited (acting through its Corporate and Investment Banking division).
Superior Proposal	a bona fide, Competing Proposal for the acquisition of 100% of the David Jones securities (including all David Jones Shares) which the David Jones Board considers, acting in good faith and after taking written advice from David Jones' legal and financial advisers: 1 is subject to conditions (taken as a whole) no more onerous than the Conditions Precedent (taken as a whole); 2 is reasonably likely to be implemented within 6 months, having regard to the proponent(s) and conditionality of the proposal; and 3 would, if implemented substantially in accordance with its terms, result in a more favourable outcome for David Jones Shareholders than would result from implementation of the Scheme.
Sydney time	the local time in Sydney, New South Wales, Australia.
Takeovers Panel	the Takeovers Panel constituted under the *Australian Securities and Investments Commission Act 2001* (Cth).
Tax Adviser's Report	the report issued by Ernst & Young which provides a summary of the Australian tax implications for David Jones Shareholders in connection with the Scheme. A copy of the Tax Adviser's Report is set out in Section 10.
Third Party	means a person other than Vela Investments and its associates.
Transaction	the acquisition of David Jones by Vela Investments through implementation of the Scheme.
Trust	the David Jones Incentive Plan Trust established under a trust deed pursuant to which the Trustee is trustee.
Trustee	David Jones Share Plans Pty Ltd ACN 082 931 413.
Vela Investments	Vela Investments Pty Ltd ACN 168 920 447.
Voting Intention	has the meaning given in Schedule 1 of the Scheme Implementation Deed as contained in Annexure C.
VWAP	volume weighted average price.
WHL or **Woolworths**	Woolworths Holdings Limited Registration Number 1929/001986/06 of 99 Longmarket Street, Cape Town 8001, South Africa.
WHL Cash	has the meaning given in Section 8.7(b).
WHL Group or **Woolworths Group**	collectively, Vela Investments and each of its Related Bodies Corporate. Woolworths is a member of the Woolworths Group.
WHL Category 1 Transaction Circular	the circular prepared by WHL for provision to its shareholders in respect of the Woolworths Shareholder Approvals Conditions Precedent.
Woolworths Financial Services	Woolworths Financial Services (Proprietary) Limited.
Woolworths Information	information regarding the Woolworths Group provided by or on behalf of Vela Investments to David Jones or its Representatives in writing for inclusion in this Scheme Booklet, being Section 8 and the answer to the question "What are the Woolworths Shareholder Approvals" in Section 5.
Woolworths Representations and Warranties	the representations and warranties made by Woolworths as set out in clause 11.1 of the Scheme Implementation Deed.

TERM	MEANING
Woolworths Rights Offer	the entitlement offer to be conducted by WHL shortly following implementation of the Scheme to raise up to approximately ZAR11 billion to repay the Equity Bridge Facility.
Woolworths Shareholder Approvals	the approvals of Woolworths shareholders as set out in the Condition Precedent in clause 3.1(b) of the Scheme Implementation Deed, as described in the response to the question "What are the Woolworths Shareholder Approvals" in Section 5 and as described more fully in Section 8.6.
Woolworths Shareholder Meeting	a meeting of the shareholders of Woolworths called to, among other things, vote on and approve the Woolworths Shareholder Resolutions.
Woolworths Shareholder Resolutions	the resolutions for Woolworths shareholders to consider whether to approve: 1 the Transaction in terms of section 9 of the JSE Listings Requirements; and 2 certain matters pertaining to the Woolworths Rights Offer.
WPL	Woolworths (Proprietary) Limited.
ZAR or **R**	the South African rand.
ZAR Facilities	has the meaning given in Section 8.7(c).
ZAR Senior Facilities	has the meaning given in Section 8.7(c).

13.2 Interpretation

In this Scheme Booklet, unless the context otherwise requires or appears:

(a) Other words and phrases not in the glossary or otherwise defined elsewhere in the Scheme Booklet have the same meaning (if any) given to them in the Corporations Act.

(b) Words of any gender include all genders.

(c) Words importing the singular include the plural and vice versa.

(d) An expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa.

(e) A reference to a Section or Annexure is a reference to a section or annexure of this Scheme Booklet as relevant.

(f) A reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them.

(g) Headings and bold type are for convenience only and do not affect the interpretation of this Scheme Booklet.

(h) A reference to time is a reference to Sydney time.

(i) A reference to dollars, $, A$, AUD, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia.

(j) A reference to ZAR or R is a reference to the lawful currency of the Republic of South Africa.

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ANNEXURE A

ASX ANNOUNCEMENTS BY DAVID JONES SINCE 25 JANUARY 2014 (BEING THE LAST DATE FOR THE 26 WEEK PERIOD RELATING TO THE DAVID JONES HALF YEAR (1H14) FINANCIAL REPORT)

This table does not contain announcements on the ASX relating to substantial holder notices.

DATE	ANNOUNCEMENT
30 January 2014	David Jones response to Media Commentary
31 January 2014	MYR: Myer confirms David Jones merger approach
7 February 2014	DJS lodges preliminary DA for Market St, Sydney
10 February 2014	AXX: clarification on Myer & David Jones merger speculation
10 February 2014	DJS – announces Board Renewal Process
11 February 2014	Appendix 3Z – Mr Steven Vamos
13 February 2014	David Jones 2Q14 Sales
20 February 2014	MYR: Myer announces re-appointment of CEO
20 February 2014	DJS – Response to Myer Letter
10 March 2014	David Jones Board Renewal & New Chairman
11 March 2014	DJS confirms Paul Zahra to remain as CEO and MD
12 March 2014	Appendix 3Z – Mr Peter Mason
12 March 2014	Appendix 3X – Mr Gordon Cairns
18 March 2014	DJS – Update on Advisers & Board Renewal
19 March 2014	DJS – David Jones Half Year (1H14) Results
19 March 2014	DJS – David Jones Half Year (1H14) Results Presentation
19 March 2014	Appendix 3Z – Mr Leigh Clapham
25 March 2014	David Jones Appoints Investment Bankers
9 April 2014	David Jones Board Recommends A$4.00 Cash per Share Proposal
9 April 2014	MYR: Myer response to David Jones announcement
11 April 2014	Shareholder letter – Recommended proposal A$4 per share
29 April 2014	Updated Securities Trading Policy
6 May 2014	DJS – David Jones 3Q14 Sales
6 May 2014	Foreign Investment Review Board Approval Received
16 May 2014	WHL Obtains SARB Approval and Releases Cat 1 Circular

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B

ANNEXURE B
INDEPENDENT EXPERT'S REPORT

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GRANT SAMUEL

GRANT SAMUEL & ASSOCIATES

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22 May 2014

The Directors
David Jones Limited
86-108 Castlereagh Street
Sydney NSW 2014

Dear Directors

Offer by Woolworths Holdings Limited

1 Introduction

On 9 April 2014, David Jones Limited ("David Jones") announced that it had entered into a Scheme Implementation Deed with South African based retail group Woolworths Holdings Limited ("Woolworths") under which a wholly owned subsidiary of Woolworths will acquire all of the David Jones shares outstanding by way of a scheme of arrangement at a price of $4.00 per share ("the Woolworths Offer"). Shareholders on the register as at 10 April 2014 will have received the interim dividend of $0.10 per share (paid 7 May 2014).

The directors of David Jones have unanimously recommended the Woolworths Offer in the absence of:

- a superior proposal; or
- the independent expert appointed by David Jones concluding that the Woolworths Offer is any one or more of the following – not in the best interests of, not fair, or not reasonable to, David Jones shareholders.

The Woolworths Offer is subject to a number of conditions precedent including:

- approval by the shareholders of David Jones by a majority (i.e. more than 50%) in number of shareholders present and voting (including by proxy), representing at least 75% of the votes cast;
- relevant approvals by the shareholders of Woolworths;
- approval under the Foreign Acquisitions and Takeovers Act, 1975 and by the South African Reserve Bank;
- approval by the Federal Court of Australia; and
- the non occurrence of various events including adverse actions by courts or government agencies, material adverse changes, prescribed occurrences or force majeure events.

The directors of David Jones have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Woolworths Offer is fair and reasonable and in the best interests of shareholders. A copy of the report (including this letter) will accompany the Notice of Meeting and Explanatory Memorandum ("the Scheme Booklet") to be sent to shareholders by David Jones. This letter contains a summary of Grant Samuel's opinion and its main conclusions.

2 Opinion

In Grant Samuel's opinion, the Woolworths Offer is fair and reasonable and, therefore, is in the best interests of shareholders, in the absence of a superior proposal.

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3 Key Conclusions

- **Grant Samuel estimates the full underlying value of David Jones to be in the range of $3.73-4.14 per share.**

The equity in David Jones has been valued in the range $2,000-2,225 million which corresponds to a value of $3.73-4.14 per share:

David Jones - Valuation Summary ($ millions)			
	Full Report Section Reference	Value Range	
		Low	High
Business operations	5.3	2,050	2,250
Air rights	5.5	50	75
Enterprise value		**2,100**	**2,325**
Net borrowings	5.6	(100)	(100)
Value of equity		**2,000**	**2,225**
Fully diluted shares on issue (millions)	4.6	536.8[1]	
Value per share		**$3.73**	**$4.14**

The valuation represents the estimated full underlying value of David Jones assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect David Jones shares to trade on the ASX in the absence of a takeover offer.

The value attributed to the business operations of $2,050-2,250 million is an overall judgement having regard to a number of valuation methodologies and parameters, including capitalisation of earnings or cash flows (multiples of EBITDA[2], EBIT[3] and net profit after tax) and discounted cash flow ("DCF") analysis. For the purposes of the valuation, the business operations have been treated as a single integrated business (i.e. earnings from the financial services business have been included as part of the retail operations). Greater weight was placed on the multiples of earnings with the DCF used more in the nature of a cross check.

The valuation:

- allows for the value inherent in David Jones' ownership of the freehold of its four flagship store sites in the central business districts ("CBDs") of Sydney and Melbourne, including the potential value of air rights;
- allows for the significant seasonal variations in working capital requirements (and therefore net debt) across the year; and
- takes account of the potential for synergies that might be available to acquirers.

- **The value of David Jones represents relatively high multiples of earnings.**

The earnings multiples implied by the valuation of David Jones' business operations and the value of equity in David Jones are summarised below:

[1] Includes 1.0 million shares to be issued under the Executive Long Term Incentive Plan ("LTIP") if the Woolworths Offer is approved, rather than the 1.3 million shares that have been issued to, and held by, the David Jones Incentive Plan Trust on behalf of employees.

[2] EBITDA is earnings before net interest, tax, depreciation and amortisation and significant and non-recurring items.

[3] EBIT is earnings before net interest, tax and significant and non-recurring items.

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David Jones – Implied Valuation Parameters			
	Variable ($ million)	Value Range	
		Low	High
Multiple of EBITDA (times) – Business Operations			
FY13[4] (actual)	209.8[5]	9.8	10.7
FY14 (broker consensus)	201.9[5]	10.2	11.1
FY15 (broker consensus)	224.2[5]	9.1	10.0
Multiple of EBIT (times) – Business Operations			
FY13 (actual)	153.0[5]	13.4	14.7
FY14 (broker consensus)	139.4[5]	14.7	16.1
FY15 (broker consensus)	159.2[5]	12.9	14.1
PE Multiple (times)			
FY13 (actual)	104.4[6,7]	19.2	21.3
FY14 (broker consensus)	93.9[6]	21.3	23.7
FY15 (broker consensus)	107.2[6]	18.7	20.8

These multiples are at the upper end of the market evidence from acquisitions of other international and domestic department stores but are broadly in line with two significant transactions in the sector that have occurred in the past 12 months:

- the acquisition of Saks, Incorporated ("Saks") by Hudson's Bay Company in mid 2013. Saks was acquired at around 11 times EBITDA; and
- the acquisition of Neiman Marcus Group LTD Inc. ("Neiman Marcus") by a private equity fund and a Canadian pension fund in late 2013. Neiman Marcus was acquired at just under 10 times historical EBITDA and 14 times historical EBIT.

A relatively high multiple for David Jones can be justified based on:

- the market positioning of David Jones and the strength of its brand in the Australian marketplace;
- the progress made since 2012 in reshaping the business;
- the potential for material improvement in revenue and earnings if there is a broader pick up in household spending. Brokers are forecasting 10% growth in EBITDA and 15% growth in EBIT in FY15; and
- David Jones' ownership of the freehold of its flagship stores in Sydney and Melbourne.

On the other hand:

- any view on multiples needs to be tempered by the fact that department store retailing is a tough business:
  - with a patchy record of sales growth;
  - facing intense competition from online and new entrants in to the Australian retail market, particularly overseas retailers, as well as traditional competitors. Any sales growth will be "hard won". Industry forecasters project very modest sales growth over the next five years for Australian department stores;
  - with many costs linked to inflation and limited ability to dramatically change major cost items (e.g. lease rentals and staff); and

4 FYXX = the financial year ending on or about 31 July 20XX (usually a 52 week period).
5 Allowing for $4.0 million before tax in savings in public listed company costs.
6 Allowing for $2.8 million after tax in savings in public listed company costs.
7 Before significant and non-recurring items, being the $9.1 million before tax loss on inventory in relation to the transfer of the Electronics business to Dick Smith.

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- requiring a continued relatively high level of capital expenditure over time to remain competitive (e.g. through refurbishments and technology upgrades). David Jones plans to spend approximately $70-80 million per annum over the next few years;

- the implementation of David Jones' Future Strategic Direction Plan means there is less "low hanging fruit" for acquirers to take advantage of through quick and easy modifications to the business; and

- recent acquisitions of Australian speciality retailers have generally been around 8 times EBITDA.

In addition, there are two further issues that impact the value and multiple and warrant careful consideration:

- synergies potentially available to acquirers of David Jones. Woolworths has flagged an expectation that it can deliver incremental earnings of $130 million per annum over five years. In Grant Samuel's opinion, the value attributed to the business operations of David Jones of $2,050-2,250 million (and the implied multiples) incorporates a reasonable share of the value of synergies that might be expected to be "paid away" by bidders in a competitive process:

  - the implied multiples are towards the top end of the evidence from acquisitions of other department store businesses (based on standalone earnings). Moreover, where substantial synergies were anticipated in these transactions, the implied multiples based on earnings incorporating (100%) of the synergies fall to around 7-8 times EBITDA and 9-12 times EBIT; and

  - some of the synergies anticipated by Woolworths are likely to be unique to it. For example, Woolworths plans to increase private label to 20-30% of sales (compared to David Jones' own target of 10%) by increasing sales in David Jones stores from its existing Australian businesses (Country Road, Mimco and Witchery) as well as its other in house brands. Other elements of the earnings uplift reflect growth strategies or changes to improve operations which are not strictly synergies as such;

- whether a sale and leaseback of the freehold properties (or similar transactions) could enhance the value of David Jones. In Grant Samuel's opinion, this is unlikely, not least because the sale price of the properties would be expected to imply a multiple of net rent[8] that is not materially different to the EBIT multiple at which David Jones has been valued (circa 15 times). In any event, such a transaction would involve compromises to David Jones' strategic and operational flexibility.

- **The DCF analysis generates a value for the business operations of David Jones of less than $2,050-2,250 million based on standalone earnings.**

  Grant Samuel has prepared a high level DCF model of David Jones' business operations. They key parameters of the model include:

  - ten and a half years cash flows from 26 January 2014 to 27 July 2024. The cash flows are nominal, ungeared and after tax;

  - inflation of 2.5%;

  - discount rates (weighted average cost of capital) of 10-11%;

  - a terminal growth rate of 2.5%; and

  - a corporate tax rate of 30%.

  A number of different scenarios were examined. The key operating assumptions for Scenario A were as follows:

  - "like-for-like" sales growth (including online) of 2.5%;

[8] High quality retail property yields are in the order of 6.0-6.5% which is equivalent to a multiple of net rent of 15.4-16.7 times.

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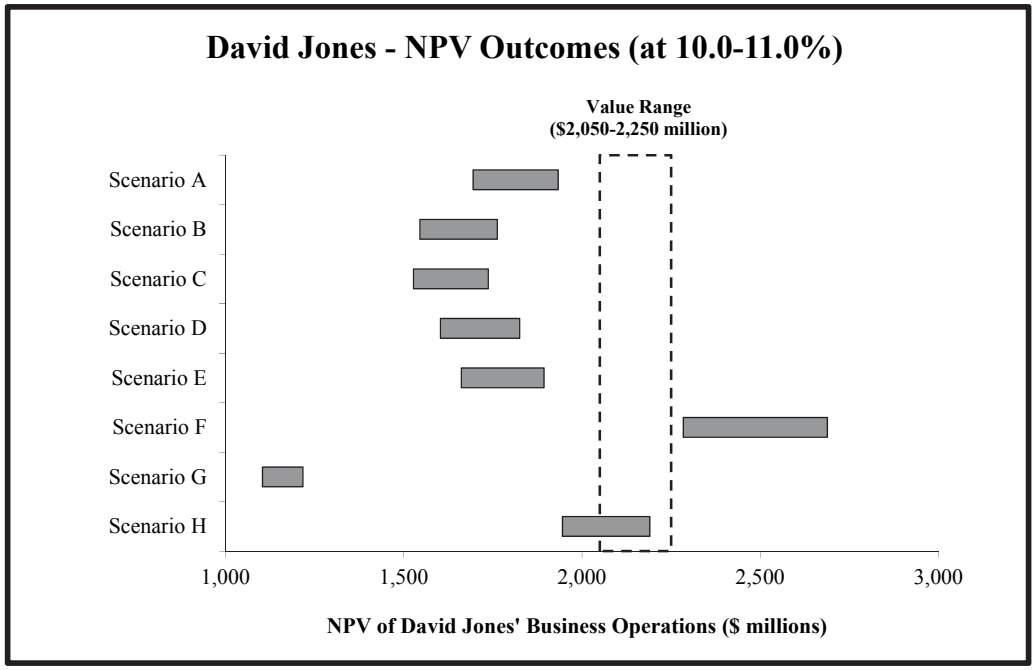
- gross margin increasing from 38.5% in FY14 to 40% in FY17 (based on the current sales mix) and flat thereafter;
- fixed costs of doing business growing at 2.5% per annum;
- $5 million of incremental cost savings in each of FY15 and FY16;
- variable costs of doing business remain at a constant percentage of sales;
- four additional full scale stores are opened and three additional "village format" stores are opened;
- financial services EBIT of $23.2 million in FY14 growing at the same rate as "like-for-like" sales; and
- capital expenditure of $80 million until FY18, dropping to $65 million and increasing by inflation thereafter.

The key parameters of the various scenarios are summarised below:

David Jones - DCF Scenarios

Scenario	Description
Scenario A	Future Strategic Direction Plan is fully implemented and achieves its objectives.
Scenario B	Scenario A except that gross margin only increases to 39.0% by FY17.
Scenario C	Scenario A except that fixed costs increase by 3.5% per annum.
Scenario D	Scenario A except that three of the new full scale stores are not opened.
Scenario E	Scenario A except that no additional "village format" stores are opened.
Scenario F	Scenario A except that "like-for-like" sales growth is 4.0% per annum, fixed cost growth is 3.5% per annum and terminal growth rate is 4.0%.
Scenario G	Scenario A except that "like-for-like" sales growth is 1.0% per annum, fixed cost growth is 2.5% per annum and terminal growth rate is nil.
Scenario H	Scenario A except that David Jones enters into a sale and leaseback of flagship properties at a yield in the range 6-6.5%.

The net present values of these scenarios are depicted graphically below:



The majority of the cases fall below the value range for the business operations of $2,050-2,250 million. This is not surprising as the DCF represents a standalone value for David Jones under the

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current ownership structure and, it is Grant Samuel's view, that the Woolworths Offer of $4.00 includes an element of payment for some of the synergies that Woolworths anticipates generating.

In any event, it should be noted that:

- the standalone DCF value falls in the range if lower discount rates of, say, 9-10% is used;
- the standalone DCF value falls in the range if a sale and leaseback transaction occurs although it does not if the discount rate is increased by 1% to reflect the increased risk profile; and
- the DCF value exceeds the value range if a more positive view of, say, 4% long term sales growth is assumed. Some acquirers may believe that they are able to "ramp up" the business to this level. Similarly, an increase in gross margins above David Jones' target of 40% (e.g. as a result of increased private label sales) would also lift the NPV materially.

- **A value of $50-75 million has been attributed to the air rights for the Sydney flagship properties**

  In 2012, David Jones began examining the potential to create value through the development of additional floors above its key store sites in Sydney and Melbourne. David Jones' preliminary analysis (conducted by David Jones management in 2012) concluded that development above either of the two Melbourne stores was less economically viable under current planning regulations. Accordingly, the primarily potential lies with the two Sydney CBD stores (Elizabeth Street and Market Street).

  However, given the early stages of the project, it is not possible to determine a present value for the air rights for these sites with any degree of precision or reliability:

  - design work has only been undertaken at a conceptual level with no decision as to end use;
  - detailed financial feasibilities have not been prepared;
  - there are no planning approvals in place;
  - David Jones initiated a process seeking proposals from developers in March 2013 but this had not even got to the point of issuing documents when it was suspended following the announcement of the Woolworths Offer; and
  - there are few, if any, useful precedents that can provide definitive data (the terms of the proposal for the adjacent Tattersalls Club site have not been made public).

  The preliminary analysis indicated the potential for significant development profits across both sites. From this profit it is necessary to allow for:

  - risk and profit sharing with a development partner (or the developer's margin in an outright sale);
  - tax on the development profits; and
  - the time to realisation and the uncertainties and risks inherent in the project at this point in time.

  Grant Samuel has adopted a present value (attributable to David Jones and net of these factors) for the air rights of $50-75 million for the purposes of this report, having regard to the David Jones preliminary analysis as well as the factors outlined above. This is a high level judgement rather than a scientifically derived estimate. Arguably it may be on the optimistic side. In fact, it is possible that the development may never proceed. However, given the nature of the test for fairness (and Grant Samuel's conclusion), it is better to err in this direction to ensure the robustness of the analysis.

  In any event, it should be noted that:

  - the value of the air rights is not material in the context of the overall value of David Jones (less than 3.5%); and
  - the air rights would have to be worth approximately $200 million (net of tax and risk sharing) before the bottom of the value range (with all other items held constant) exceeded the Woolworths Offer of $4.00 per share.

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- **The Woolworths Offer is fair and reasonable and, therefore, is in the best interests of David Jones shareholders, in the absence of a superior proposal**

  Grant Samuel has estimated the full underlying value of David Jones to be in the range of $3.73-4.14 per share. The Woolworths Offer of $4.00 per share falls within the range. Accordingly, the Woolworths offer is fair. The bottom of the range represents the relevant threshold for fairness. Any price above the bottom of the range is, by definition, fair and it is irrelevant where in the range the offer falls.

  As the Woolworths Offer is fair, it is also reasonable. In any event, there are a number of factors that support the reasonableness of the Woolworths Offer:

  - the offer price of $4.00 per share represents a substantial premium over the David Jones share price prior to the Woolworths Offer. The following table summarises the premiums over the David Jones share price represented by the Woolworths Offer on two bases:
    - up to 30 January 2014, the last trading day prior to the proposal by Myer Holdings Limited ("Myer") being publicly confirmed[9]; and
    - up to 8 April 2014, the last trading day prior to the announcement of the Woolworths Offer.

Premiums Implied by the Woolworths Offer		
Period	**Premium**	
	Prices to 30 January 2014	**Prices to 8 April 2014**
Closing Price	39.4%	25.4%
VWAP[10] – 1 week prior	37.8%	27.0%
VWAP – 1 month prior	33.1%	24.4%
VWAP – 3 months prior	36.8%	26.8%

    The level of control premiums observed in takeovers tends to fall in the range 20-35% but it is important to recognise that:

    - premiums for control are an outcome not a determinant of value; and
    - they vary widely depending on individual circumstances. In fact, some studies show that the majority of transactions actually fall outside this "standard" range.

    In the case of David Jones, the premiums implied by the Woolworths Offer over the 8 April 2014 share price (circa 25%) are reasonable but towards the lower end of the standard range. However, in Grant Samuel's opinion, the premiums based on prices up to 30 January 2014 are the more relevant as these are undisturbed prices and are a better reflection of where David Jones shares would trade in the absence of a takeover offer or any speculation as to one. On this basis, the Woolworths Offer represents very substantial premiums for control (circa 35-40%);

  - in the absence of the Woolworths Offer or any alternative offer (or speculation as to any offer) it is likely that, under current market conditions, David Jones shares would trade at prices well below $4.00; and
  - the proposal by Myer for a nil premium merger with David Jones has been withdrawn by Myer following the announcement of the Woolworths Offer. In any event, based on the terms proposed by Myer and Myer's estimate of expected synergies it is unlikely that David Jones shareholders would have been better off (or would be if it was reactivated) than under the Woolworths Offer at least without a subsequent change of control event for the merged company. Myer's estimate of the value of the synergies represented approximately 70 cents per David Jones share which, combined with the pre 30 January 2014 share price of around $3.00, is short of the Woolworths Offer of $4.00.

[9] David Jones confirmed that it had been approached by Myer in October 2013 with a proposal for a nil premium merger.

[10] VWAP = volume weighted average price.

It is conceivable that a third party could make a higher offer for David Jones. There are no structural impediments to such an offer. There is ample time to do so prior to the shareholder meeting to approve the Woolworths Offer which is scheduled for 30 June 2014. If this does not occur, it would be imprudent for shareholders to reject the Woolworths Offer in anticipation of a higher offer from either Woolworths or a third party.

As the Woolworths Offer is fair and reasonable, it is, therefore, in the best interests of David Jones shareholders, in the absence of a superior proposal.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual David Jones shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by David Jones in relation to the Woolworths Offer.

This report sets out Grant Samuel's opinion and the reasons for it. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Woolworths Offer, the responsibility for which lies with the directors of David Jones. In any event, the decision whether to vote for or against the Woolworths Offer is a matter for individual shareholders, based on their own views as to value, their expectations about the future performance of David Jones and future market conditions as well as their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, tax consequences may vary from shareholder to shareholder. Shareholders who are in doubt as to the action they should take in relation to the Woolworths Offer should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in David Jones. This is an investment decision independent of a decision on whether to vote for or against the Woolworths Offer upon which Grant Samuel does not offer an opinion or recommendation. Shareholders should consult their own professional adviser in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

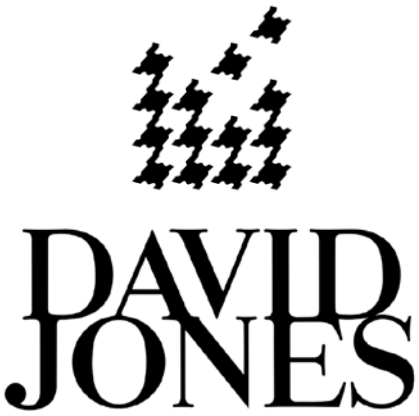
The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully
GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates

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Financial Services Guide and Independent Expert's Report in relation to the Offer by Woolworths Holdings Limited

Grant Samuel & Associates Pty Limited
(ABN 28 050 036 372)

22 May 2014

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Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for David Jones Limited in relation to the offer by Woolworths Holdings Limited ("the David Jones Report"), Grant Samuel will receive a fixed fee of $450,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 7.3 of the David Jones Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the David Jones Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 7.3 of the David Jones Report:

> *"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with David Jones or Woolworths or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Woolworths Offer.*
>
> *Grant Samuel had no part in the formulation of the Woolworths Offer. Its only role has been the preparation of this report.*
>
> *Grant Samuel will receive a fixed fee of $450,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Woolworths Offer. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.*
>
> *Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the David Jones Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the David Jones Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
ABN 28 050 036 372 AFS LICENCE NO 240985

GRANT SAMUEL

Table of Contents

1 Introduction 1

2 Scope of the Report 3
- **2.1 Purpose of the Report 3**
- **2.2 Basis of Evaluation 3**
- **2.3 Sources of the Information 4**
- **2.4 Limitations and Reliance on Information 5**

3 Overview of the Australian Department Store Sector 8
- **3.1 Australian Retail Industry 8**
- **3.2 Department Store Sector 11**

4 Profile of David Jones Limited 17
- **4.1 Background 17**
- **4.2 Business Strategy 17**
- **4.3 Financial Performance 23**
- **4.4 Financial Position 26**
- **4.5 Cash Flow 27**
- **4.6 Capital Structure and Ownership 28**
- **4.7 Management Incentive Plan 28**
- **4.8 Property 28**
- **4.9 The Myer Proposal 30**
- **4.10 Share Price Performance 30**

5 Valuation of David Jones Limited 32
- **5.1 Summary 32**
- **5.2 Methodology 33**
- **5.3 Valuation Approach for David Jones 37**
- **5.4 Value of Business Operations 38**
- **5.5 Value of Air Rights Development Potential 57**
- **5.6 Net Borrowings 58**
- **5.7 Head Office Costs 59**
- **5.8 Franking Credits 59**

6 Evaluation of the Woolworths Offer 60
- **6.1 Opinion 60**
- **6.2 Fairness 60**
- **6.3 Reasonableness 60**
- **6.4 Other Matters 63**
- **6.5 Shareholder Decision 64**

7 Qualifications, Declarations and Consents 65
- **7.1 Qualifications 65**
- **7.2 Disclaimers 65**
- **7.3 Independence 65**
- **7.4 Declarations 65**
- **7.5 Consents 66**
- **7.6 Other 66**

Appendices

1. **Broker Consensus Forecasts**
2. **Market Evidence – Transactions**
3. **Market Evidence – Comparable Listed Companies**

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1 Introduction

On 9 April 2014, David Jones Limited ("David Jones") announced that it had entered into a Scheme Implementation Deed with South African based retail group Woolworths Holdings Limited ("Woolworths") under which a wholly owned subsidiary of Woolworths will acquire all of the David Jones shares outstanding by way of a scheme of arrangement at a price of $4.00 per share ("the Woolworths Offer"). Shareholders on the register as at 10 April 2014 will have received the interim dividend of $0.10 per share (paid 7 May 2014).

The directors of David Jones have unanimously recommended the Woolworths Offer in the absence of:

- a superior proposal; or
- the independent expert appointed by David Jones concluding that the Woolworths Offer is not in the best interests of, or not fair or not reasonable to, David Jones shareholders.

The Woolworths Offer is conditional on:

- approval by the shareholders of David Jones by the requisite majorities under Section 411 of the Corporations Act, 2001 ("Corporations Act") being a majority in number (i.e. more than 50%) of shareholders present and voting (either in person or by proxy) at the meeting, representing at least 75% of the votes cast on the resolution;
- approval by the shareholders of Woolworths in relation to:
  - the acquisition of David Jones (by a majority of more than 50%); and
  - certain matters in connection with the rights issue being undertaken by Woolworths to fund the acquisition (by a majority of more than 75%);
- approval under the Foreign Acquisition and Takeovers Act, 1975;
- approval by the South African Reserve Bank;
- approval by the Federal Court of Australia; and
- that by the day of the second court hearing for the scheme there has been no injunction, decision, order or decree issued by any court or government agency or any action or investigation by any government agency that restrains, prohibits or adversely impacts the transaction, no material adverse change, no prescribed occurrence or no force majeure event.

Other features of the Woolworths Offer include the following:

- usual exclusivity provisions including no-shop and no-talk restrictions and a notification obligation with the no-talk and notification provisions subject to a carve out in respect of David Jones directors' fiduciary obligations;
- a break fee of $22 million (exclusive of GST), payable by David Jones to Woolworths in the event that:
  - a competing proposal is made or announced before the termination of the Scheme Implementation Deed and within 12 months thereafter:
    - a proposal (involving a third party acquiring or becoming the holder of a right to acquire an economic interest in all or a substantial part of the David Jones business or any of its material assets) is implemented in the same or substantially the same form as announced; or
    - a third party acquires control of, or merges with, David Jones; or
  - Woolworths becomes entitled to terminate the Scheme Implementation Deed (under clause 13.1(b) or 13.2) other than where the independent expert concludes that the transaction is any one or more of the following – not in the best interests of, not fair, or not reasonable, to David Jones shareholders; and

- reimbursement of David Jones' transaction costs by Woolworths up to a maximum of $5 million (exclusive of GST) if:
  - Woolworths shareholder approvals are not obtained; or
  - Woolworths directors do not recommend that Woolworths shareholders vote in favour of (or withdraw or qualify their recommendation) each of the resolutions to be put to Woolworths shareholders; and
- a sunset date for implementation of the scheme of 23 September 2014 (or a later date as may be agreed in writing by the parties).

David Jones operates two management incentive plans, the Executive Short Term Incentive Plan ("STIP") and the Executive Long Term Incentive Plan ("LTIP"). If the Woolworths Offer is approved:

- the directors will use their discretion such that:
  - all entitlements under the STIP for the year ending 26 July 2014 will be payable based on the projected profit after tax for the year as at the implementation date of the Woolworths Offer (if it is before 26 July 2014);
  - the full entitlement amount under the STIP will be paid in cash (i.e. there will be no deferral of a percentage of the STIP by the issue of performance rights); and
  - the deferred component (25%) of an entitlement due in respect of last year's STIP will immediately vest into David Jones shares and will participate in the Scheme; and
- the directors of David Jones will use a power available under the terms of the LTIP so that the total shareholder return and earnings per share growth performance criteria will effectively be waived (provided that the profit after tax figure referred to above has been met or would have been met on a projected basis) and the entitlements to shares in David Jones will vest but on a basis pro rata to the elapsed term of each tranche of the scheme (i.e. from the commencement of the performance period to the date of the implementation of the Woolworths Offer). This decision will result in approximately 1.0 million of the outstanding performance rights vesting (some of which may have vested in any event) and being satisfied by the allocation of already issued shares in David Jones held by the David Jones Incentive Plan Trust.

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2 Scope of the Report

2.1 Purpose of the Report

The Woolworths Offer is to be implemented by a scheme of arrangement under Section 411 of the Corporations Act between David Jones and its shareholders.

Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in relation to such schemes. Part 3 of Schedule 8 requires an independent expert's report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement has a prescribed shareholding in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert's report must state whether the scheme of arrangement is in the best interest of shareholders subject to the scheme and must state reasons for that opinion.

Although there is no requirement in the present circumstances for an independent expert's report pursuant to the Corporations Act or the Australian Securities Exchange ("ASX") Listing Rules, the directors of David Jones have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Woolworths Offer is fair and reasonable and in the best interests of David Jones shareholders and to state reasons for that opinion. A copy of the report will accompany the Notice of Meeting and Explanatory Memorandum ("the Scheme Booklet") to be sent to shareholders by David Jones.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual David Jones shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by David Jones in relation to the Woolworths Offer.

This report sets out Grant Samuel's opinion and the reasons for it. Grant Samuel has not been engaged to provide a recommendation to shareholders, the responsibility for which lies with the directors of David Jones. In any event, voting for or against the Woolworths Offer is a matter for individual shareholders based on their views as to value, their expectations about the future performance of David Jones and future market conditions as well as their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, the taxation consequences may vary from shareholder to shareholder. Shareholders who are in doubt as to the action they should take in relation to the Woolworths Offer should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in David Jones. This is an investment decision independent of a decision on whether to vote for or against the Woolworths Offer upon which Grant Samuel does not offer an opinion. Shareholders should consult their own professional adviser in this regard.

2.2 Basis of Evaluation

There is no legal definition of the expression "in the best interests". However, the Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 111 which establishes guidelines in respect of independent expert's reports. ASIC Regulatory Guide 111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between "fair" and "reasonable". A proposal that was "fair and reasonable" or "not fair but reasonable" would be in the best interests of shareholders. For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. If the advantages outweigh the disadvantages, a proposal would be in the best interests of shareholders.

The Woolworths Offer is economically the same as a takeover offer. Accordingly, Grant Samuel has evaluated the Woolworths Offer as a control transaction and formed a judgement as to whether the proposal is "fair and reasonable".

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Fairness involves a comparison of the offer price with the value that may be attributed to the securities that are the subject of the offer based on the value of the underlying businesses and assets. For this comparison, value is determined assuming 100% ownership of the target and a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer such as:

- the offeror's existing shareholding;
- other significant shareholdings;
- the probability of an alternative offer; and
- the liquidity of the market for the target company's shares.

An offer could be considered "reasonable" if there were valid reasons to accept the offer notwithstanding that it was not "fair".

Fairness is a more demanding criteria. A "fair" offer will always be "reasonable" but a "reasonable" offer will not necessarily be "fair". A fair offer is one that reflects the full market value of a company's businesses and assets. An offer that is in excess of the pre-bid market prices but less than full value will not be fair but may be reasonable if shareholders are otherwise unlikely in the foreseeable future to realise an amount for their shares in excess of the offer price. This is commonly the case where the bidder already controls the target company. In that situation the minority shareholders have little prospect of receiving full value from a third party offeror unless the controlling shareholder is prepared to sell its controlling shareholding.

Grant Samuel has determined whether the Woolworths Offer is fair by comparing the estimated underlying value range of David Jones with the offer price. The Woolworths Offer will be fair if it falls within or exceeds the estimated underlying value range. In considering whether the Woolworths Offer is reasonable, the factors that have been considered in addition to fairness include:

- the existing shareholding structure of David Jones;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of David Jones shares in the absence of the Woolworths Offer; and
- other advantages and disadvantages for David Jones shareholders of approving the Woolworths Offer.

2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Scheme Booklet (including earlier drafts);
- annual reports of David Jones for the four financial years ended 27 July 2013 (FY13[1]);
- half year announcement of David Jones for the 26 weeks ended 25 January 2014;
- press releases, public announcements, media and analyst presentation material and other public filings by David Jones including information available on its website;
- brokers' reports and recent press articles on David Jones and the retail sector;

[1] FYXX = the financial year ending on or about 31 July 20XX (usually a 52 week period).

- sharemarket data and related information on Australian and international listed companies engaged in the retail industry and on acquisitions of companies and businesses in this industry; and
- information relating to the Australian and international retail industries (in particular the department store sector) including studies published by IBISWorld Pty Ltd ("IBISWorld") and Deloitte Access Economics Pty Ltd ("Deloitte Access Economics").

Non Public Information provided by David Jones

- management accounts for David Jones to the end of March 2014; and
- other confidential documents, board papers, presentations and working papers.

Grant Samuel has also held discussions with, and obtained information from, senior management of David Jones and its advisers.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by David Jones and its advisers. Grant Samuel has considered and relied upon this information. David Jones has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Woolworths Offer is fair and reasonable and in the best interests of David Jones shareholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of David Jones. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

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The information provided to Grant Samuel included:

- the latest projections for FY14 prepared by the management of David Jones; and
- high level financial modelling for FY15 to FY17.

David Jones is responsible for this information ("the forward looking information"). Grant Samuel has considered and, to the extent deemed appropriate, relied on the forward looking information for the purposes of its analysis. It should be noted that the forward looking information and the underlying assumptions have not been reviewed (nor is there a statutory or regulatory requirement for such a review) by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions.

Subject to these limitations, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant's examination), there are reasonable grounds to believe that the forward looking information has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors into account that:

- the latest management projections for FY14 was prepared in the normal course of business;
- the latest management projections for FY14 is based on eight months of actual results and four months of forecasts. The actual results include the key Christmas trading period;
- David Jones is a long established, mature business; and
- David Jones has sophisticated management and financial reporting processes. Projecting full year results for internal management purposes is a regular part of the David Jones management reporting process.

The directors of David Jones have decided not to include any forecast information in the Scheme Booklet and therefore the forward looking information has not been disclosed in this report.

In order to provide an indication of the expected financial performance of David Jones, Grant Samuel has considered brokers' forecasts for David Jones (see Appendix 1). Grant Samuel has used the median of the brokers' forecasts to review the parameters implied by its valuation of David Jones. The FY14 consensus forecasts are sufficiently close to David Jones' projections to be useful for analytical purposes.

Grant Samuel has no reason to believe that the forward looking information reflects any material bias, either positive or negative. However, the achievability of the forward looking information is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable.

Grant Samuel has not undertaken any valuations of the properties owned by David Jones but, for the purposes of this report, has considered the advice received by David Jones in relation to the hypothetical sale price of those properties on an existing use basis. However, it should be noted that the market value of the properties is not a separate component of the valuation of David Jones as the properties are implicitly valued as part of the business operations.

As part of its analysis, Grant Samuel prepared a discounted cash flow valuation of David Jones' business operations. In connection with that analysis, Grant Samuel has reviewed the sensitivity of net present values to changes in key variables. The sensitivity analysis isolates a limited number of assumptions and shows the impact of variations to those assumptions. No opinion is expressed as to the probability or otherwise of those variations occurring. Actual variations may be greater or less than those modelled. In addition to not representing best and worst outcomes, the sensitivity analysis does not, and does not purport to, show the impact of all possible variations to the business model. The actual performance of the business may be negatively or positively impacted by a range of factors including, but not limited to:

- changes to the assumptions other than those considered in the sensitivity analysis;
- greater or lesser variations to the assumptions considered in the sensitivity analysis than those modelled; and
- combinations of different variations to a number of different assumptions that may produce outcomes different to the combinations modelled.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the assessments by David Jones and its advisers with regard to legal, regulatory, tax and accounting matters relating to the transaction are accurate and complete;
- the information set out in the Scheme Booklet sent by David Jones to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Woolworths Offer will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Woolworths Offer are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

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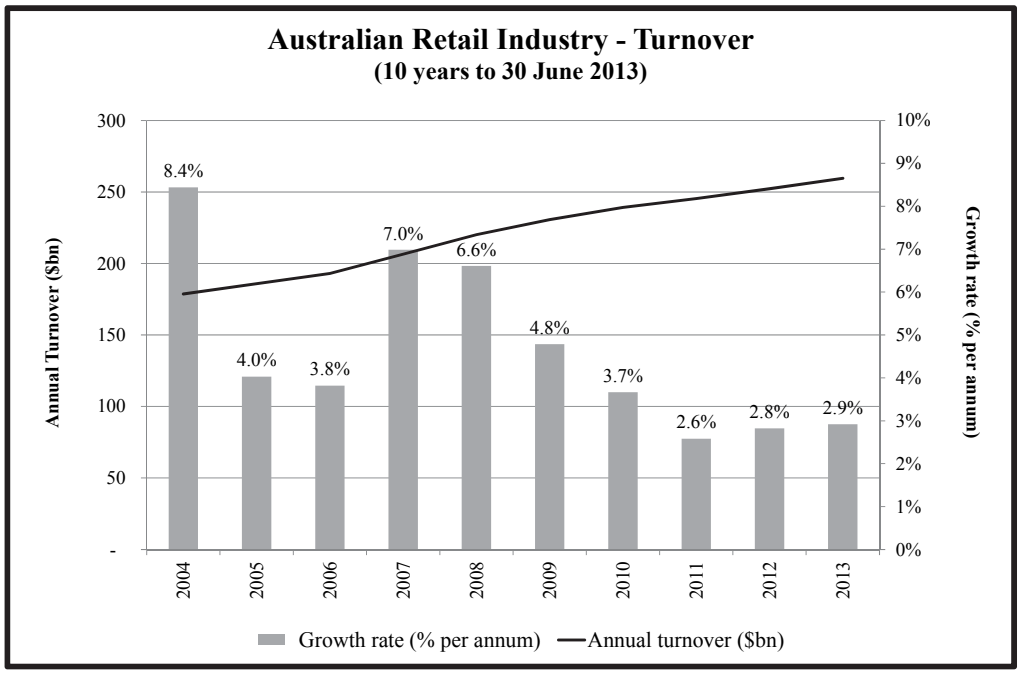
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3 Overview of the Australian Department Store Sector

3.1 Australian Retail Industry

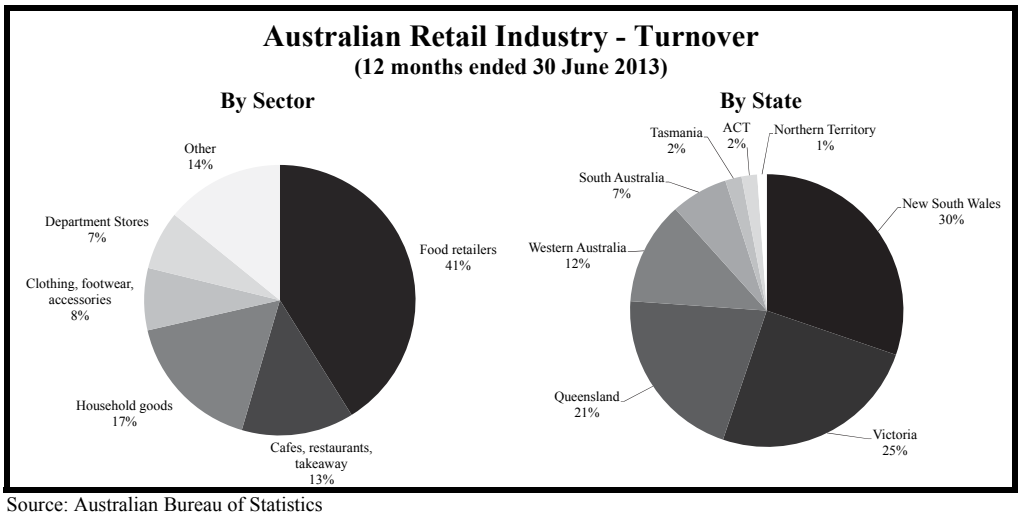
Overview

The Australian retail industry comprises food retailing (including liquor), household goods retailers, cafes, restaurants and takeaway food services, clothing, footwear and personal accessory retailers, department stores and other retailers (e.g. retailers of pharmaceuticals and cosmetics, recreational goods, newspapers and books). The industry generated turnover of $260 billion in the 12 months to 30 June 2013. Aggregate growth has been subdued since the onset of the global financial crisis in late 2007:



Source: Australian Bureau of Statistics
Note: Turnover expressed in nominal terms

Food (food retailers and cafes, restaurants and takeaway food services) represents the largest sector of the retail industry (accounting for 54% of turnover) and New South Wales and Victoria together contribute 54% of industry turnover:



Source: Australian Bureau of Statistics

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Comparative Growth

The retail industry has generally grown strongly over the past three decades, although growth has slowed substantially since the onset of the global financial crisis in late 2007 with a compound annual growth rate for the five years to 30 June 2013 of only 3.4% (in nominal terms). Food has consistently outperformed the other sectors and has largely underpinned the growth in the Australian retail industry over the past five years. In comparison, department stores[2] have consistently experienced lower growth rates than the rest of the industry with a compound annual growth rate of just 0.2% over the five year period to 30 June 2013:



Source: Australian Bureau of Statistics

Growth in Queensland and Western Australia has outpaced the national average. Victoria has grown broadly in line with the national average while New South Wales has consistently experienced the lowest growth rates of the top four states.

Drivers

Retail spending is primarily influenced by aggregate household disposable income (which is an indication of households' ability to spend) as well as by household wealth, consumer confidence and broader economic factors.

Aggregate household disposable income is driven by:

- **population and employment growth:** population growth in Australia over the past decade has averaged approximately 1.6% per annum[3] while the labour market has grown at a higher rate (approximately 2.0% per annum[3]) as a result of increased participation. The labour market is currently experiencing some weakness but there are signs of improvement (seasonally adjusted employment growth in the March 2014 quarter was the strongest it has been in two years and leading indicators of employment, such as job advertisements and vacancies, were more positive). Nevertheless, employment growth is expected to remain subdued over the next two to three years as a result of a contracting resources sector, State and Federal government cutbacks and continued caution by business. In the longer term, population growth of

2 Includes discount department stores such as Big W and Kmart.

3 Australian Bureau of Statistics.

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approximately 1.5-2.0% per annum[4] is expected to generate employment growth of a similar magnitude;

- **real wages growth:** real wages are estimated to have declined by 0.2% in the year ended 31 December 2013[5] and are expected to remain relatively flat over the next two years as a result of a soft labour market. Real wages are then expected to grow at an average of approximately 2% per annum[5] over the following few years;
- **interest payments:** benchmark interest rates are at cyclical lows resulting in lower mortgage payments and a lower cost of other debt which contribute to increased retail spending (albeit with an opposite effect on retirees and others living, at least in part, on interest income). Rates are expected to remain at current levels in the immediate future but an economic recovery and increases in inflation are expected to result in higher interest rates over the next two to three years; and
- **taxation and social security:** although the current federal government remains committed to the repeal of the previous government's carbon pricing mechanism (which is expected to have a positive impact on prices for consumers), the May 2014 budget included a number of measures which could adversely impact consumer disposable income.

Low interest rates have boosted house and share prices over the past year or two, contributing to an increase in household wealth which, combined with a period of prudent financial management, has led to household debt to asset ratios improving and asset to disposable income ratios increasing (although household debt ratios have deteriorated more recently). Ultimately, this trend should lead to stronger consumer confidence and increased propensity to spend disposable income. It also results in more positive attitudes towards debt and the willingness of households to fund their purchases through additional debt.

Although consumer confidence was generally positive in 2013, it has dipped in early 2014, partially driven by announcements of job cuts and impending factory closures as well as mooted cuts in government spending. However, indices of consumer confidence can be misleading. Anecdotal evidence suggests that consumer confidence can vary materially between socio-economic groups resulting in different spending trends in the premium, mid and value retail segments. There are signs that spending in the premium segment is strengthening relative to other segments.

The global economy is showing evidence of improving (albeit inconsistently) and, although growth in China is lower than it has been in recent years, the economy is still growing at very high rates compared to most of the rest of the world. The situation in the United States and the United Kingdom is slowly improving and concerns about Europe's future have abated to some degree.

Outlook

Deloitte Access Economics expects that the Australian retail industry will grow at a compound average rate of 4.6% per annum (in nominal terms) over the five years to 30 June 2018 compared to 3.4% per annum in the previous five years. Food retailing is expected to grow at an average annual rate of 5.7%. While the forecast growth rate for the balance of the retail sector of 3.3% per annum continues to be lower than food, the gap is less than it has been and the previous five years:

4 Australian Bureau of Statistics.

5 Deloitte Access Economics.

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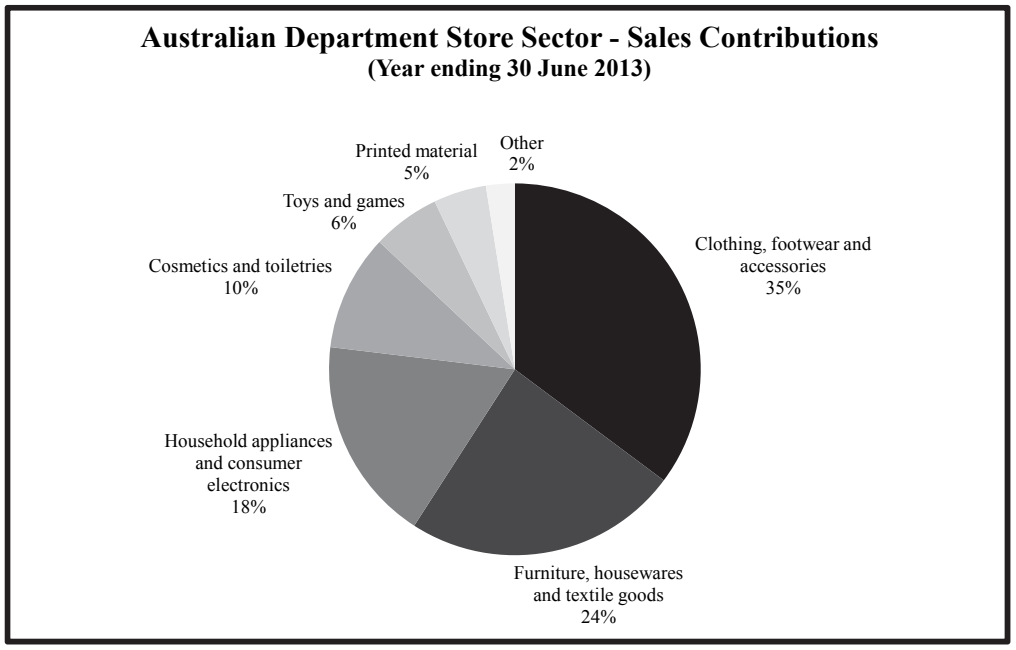
Source: Australian Bureau of Statistics, Deloitte Access Economics

3.2 Department Store Sector

Overview

The department store sector in Australia generated a turnover of approximately $18 billion for the 12 months ended 30 June 2013.

Department stores all carry a broadly similar range of categories spanning clothing, footwear and personal accessories, furniture, housewares and textile goods, household appliances and consumer electronics, cosmetics and beauty products, toys and games and various other products. IBISWorld estimates the relative contribution of the different categories in 2013 as follows:

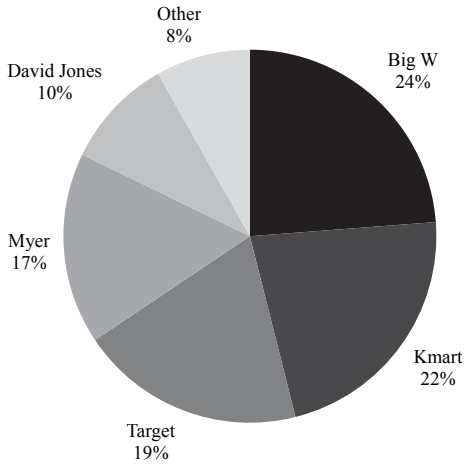


Source: IBISWorld

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The Australian department store sector is highly concentrated with the top five department store chains accounting for more than 90% of turnover:

Australian Department Store Sector - Market Shares
(Year ended 30 June 2013)



Source: IBISWorld

Although there is a degree of overlap in the categories, range and prices offered, Australian department stores can be broadly categorised as follows:

- **discount department stores:** which target medium to low income consumers and offer everyday products with a focus on price and less emphasis on brands and customer service (e.g. Big W (owned by Woolworths Limited, the Australian supermarket operator) and Kmart (owned by Wesfarmers Limited));
- **mid-market department stores:** which are focused on providing quality fashion at affordable prices (e.g. Target owned by Wesfarmers Limited); and
- **high end department stores**: which target medium to high income customers supported by a higher level of customer service (e.g. David Jones and Myer Holdings Limited ("Myer")).

The chart below illustrates the market positioning of the top five Australian department store chains:

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Source: Grant Samuel analysis

The department store sector faces competition from category specialists (e.g. Harvey Norman, JB Hi-fi and specialty clothing retailers such as Sportscraft, Country Road as well as new entrants such as TopShop and Zara) and overseas online retailers. The sector has grown significantly more slowly than other retail sectors (e.g. a compound annual growth rate of only 0.2% over the last five years compared to 2.0% for the other non-food sectors).[6] As a consequence, the department store market share of non-food retail spend has decreased from 24% in 1983 to 15% in 2013 (and from 13% of total retail spend in 1983 to 7%).[6] Within the overall department store sector, the discount department stores (Big W and Kmart) are growing faster than mid-market (Target) and traditional "full service" department stores (Myer and David Jones).

Key Participants

Big W is the largest department store chain in Australia in terms of turnover with a product range more focused on do-it-yourself, motoring and pet supplies than its peers. Big W operates more than 180 stores nationally, mainly in suburban and regional areas. Big W competes strongly against Kmart and experienced a contraction in turnover in the 2010 and 2011 financial years but more recently has posted stronger gains than its peers through a strong presence in the online sector and the success of new product lines. Overall, Big W's turnover has grown only slightly (and, in fact, fell in the latest quarter) in the past five years while EBIT margins have decreased marginally.

Kmart is the second largest department store in Australia in terms of turnover and operates in excess of 190 stores in Australia and New Zealand, largely in suburban and regional centres. Over recent years, it has benefitted from the implementation of measures to optimise product lines, improve customer service and reduce supply chain costs. As a result, Kmart has been the most successful of the five major department stores in the past five years. Turnover has grown faster than that of its peers (albeit slowing in the last two quarters) and EBIT margins have tripled (and are now higher than the margins of the other majors).

[6] Australian Bureau of Statistics.

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Target operates over 310 stores in Australia and has developed a middle market positioning for quality and fashionable products at affordable prices. It has recently moved its offering to having an emphasis to being "on trend" and "fast fashion" but in the subdued retail environment it has faced strong competition from Kmart and Big W. As a result, turnover has contracted and EBIT margins have fallen from around 10% in 2010 to 3.7% in 2013 (the lowest of the five major department store chains).

Myer operates 66 stores across Australia except in the Northern Territory. Stores are typically located in central business districts ("CBDs") and major shopping centres. Myer has seen turnover and EBIT margins decline since 2009/10 as discretionary spending contracted and competition intensified. Sales levels have stabilised over the past 2-3 years and shown modest growth in recent quarters (but fell in the latest quarter).

David Jones operates 38 stores in Australia (mainly in CBDs and large shopping centres) and offers a wide range of prestigious international and domestic brands, many on an exclusive basis. Similar to Myer, David Jones has come under pressure over the past five years resulting in a large slide in turnover and department store EBIT margins have materially declined since their peak in FY11.

Recent Structural Changes and Industry Response

In addition to being affected by generally soft retail conditions, the department store sector (and other Australian non-food retailers) have been impacted by two significant recent structural changes:

- **growth in online retail:** the past ten years, and particularly the last five years, has seen a dramatic rise in the level of online shopping by Australian consumers from both overseas and domestic retailers. The initial growth in online retail was from offshore websites driven by:
  - the convenience of online shopping;
  - increasing awareness of price differentials between the overseas retailers and Australian "bricks and mortar" retailers selling the same products. This was further assisted by technological advances such as smart phones offering direct price comparison capabilities;
  - a wider range of brands and products. A number of leading brands had not previously been available in Australia and, even where they were available, many physical retailers did not carry the full range;
  - better accessibility (e.g. acceptance of Australian based credit cards) and improving shipping logistics with more offshore retailers offering direct and fast shipping to Australia; and
  - increasing levels of comfort with online purchasing issues such as payment/credit card security and returns (e.g. for sizing issues).

  Over the past two to three years, online purchasing from offshore accelerated largely due to the strong Australian dollar accentuating the price gap. The goods and services tax ("GST") exemption on the purchase of items with a value below $1,000 has also played a part, albeit relatively minor (and at least partly offset by shipping costs).

  During the same period, domestic online and "bricks and clicks"[7] retailers have also emerged as a much greater force with their competitiveness underpinned by significantly lower cost bases than traditional retailers; and
- **international retailers expanding to Australia:** The arrival of international fashion giants such as Zara, The Gap and TopShop is cannibalising sales from Australian fashion specialist retailers and department stores. The recent openings of H&M and Uniqlo and the impending arrival of other international retailers is expected to intensify competition. These chains typically have a higher brand positioning than many local retailers but offer products at very competitive prices.

[7] Retailers with both physical and online stores.

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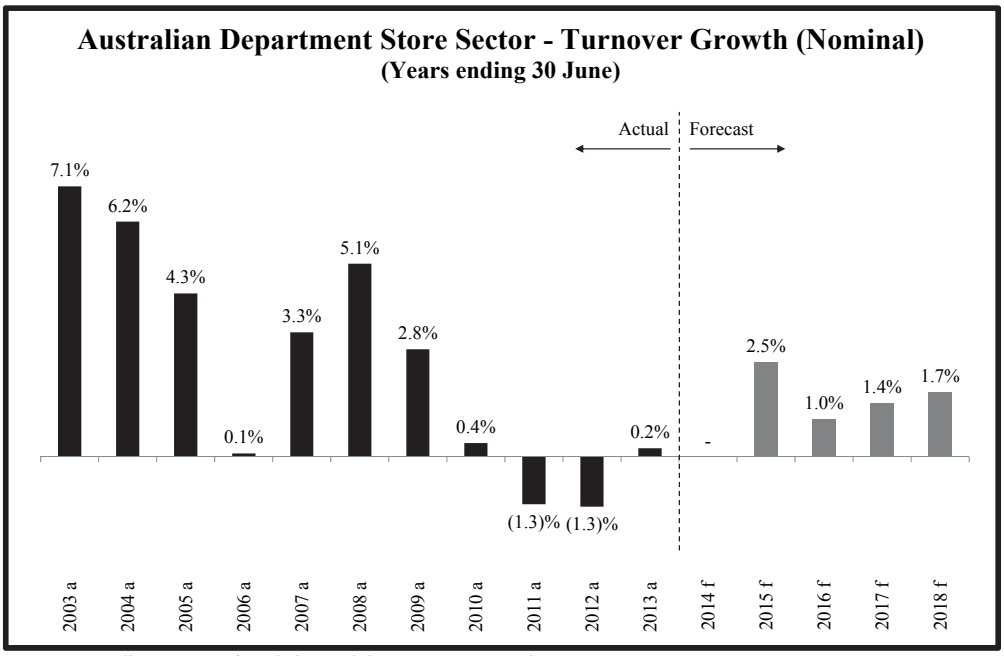
Australian retailers are implementing a number of measures to remain competitive:

- **lower prices:** retailers are endeavouring to lower product pricing to within an acceptable range of what overseas retailers offer. Lowering the prices of top end products typically requires that prices of similar but lower quality products also be revised down. Australian retailers have been trying to share the impact of these price reductions with their suppliers to preserve gross margins (in percentage terms);
- **private brands:** products sold under the retailers' own brand(s) typically generate higher margins than products sold under third party brands. Myer's private brand business now represents approximately 20% of sales. David Jones is also aiming to grow its share of private brand sales;
- **better customer experience:**
  - as products available in physical stores are now available for purchase online, "bricks and mortar" retailers will seek to differentiate themselves through better customer service (e.g. through the provision of value-add services, increased rewards for loyal shoppers, more targeted offers and a better overall shopping experience);
  - retailers are recognising the increasing importance of being able to engage with customers through multiple channels, such as physical stores, online stores and social media (e.g. Facebook, Twitter) and to offer a seamless experience to the consumer across these channels. Although the five major department stores all have an online presence, the contribution of their webstores to sales is currently limited; and
  - an improved customer experience typically requires the implementation of integrated information management systems to efficiently gather customer data across all customer contact points (physical stores, online stores and contact centres) and leverage this data to enhance the shopping experience;
- **direct sourcing:** retailers typically buy their products through wholesalers. Buying goods directly from the brand owner eliminates wholesaler margins and simplifies the supply chain thereby reducing costs. It also allows retailers to better control stock levels and order sizes which helps reduce reliance on discounting to sell excess product; and
- **tax reform:** the retail industry has been lobbying the Federal Government to lower the GST exemption threshold to a level that should impact most online purchases and therefore provide an incentive for customers of overseas online retailers to instead shop in Australian physical or online stores.

Outlook

Deloitte Access Economics has forecast department store sector turnover to grow (in nominal terms) at an average 1.3% per annum over the five years to 30 June 2018, significantly more slowly than the overall non-food retail sector (3.3%):

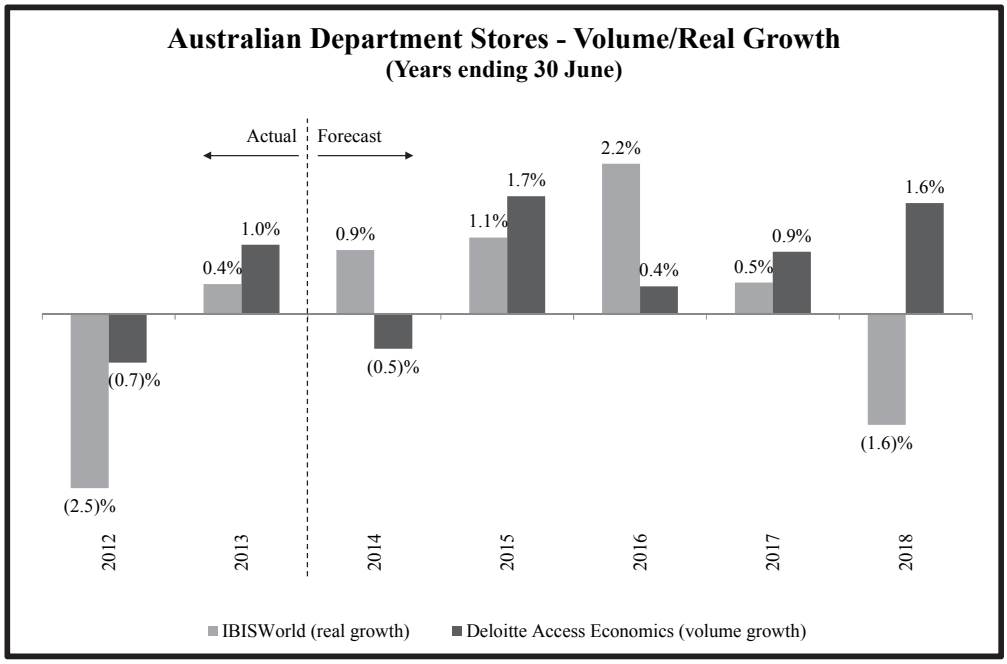
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Source: Australian Bureau of Statistics, Deloitte Access Economics

The Deloitte Access Economics growth forecasts can be segmented into volume and price impacts. IBISWorld has also forecast sales growth for the industry in real terms (i.e. net of inflation) which although calculated on a different basis, is a broadly similar measure.

The following chart shows the growth in volumes (Deloitte Access Economics) and inflation-adjusted revenues (IBISWorld) from 2012 to 2018:



Source: Deloitte Access Economics, IBISWorld

While the average rate of growth over the five year period for both Deloitte Access Economics and IBISWorld is broadly similar (0.8% and 0.6%, respectively), there are substantial differences in the year by year forecasts. These differentials suggest that there are high levels of uncertainty as to future growth for the sector.

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4 Profile of David Jones Limited

4.1 Background

David Jones is Australia's oldest department store. The first store was opened in 1838 by Mr David Jones, a Welsh merchant, with a mission to sell "the best and most exclusive goods". David Jones became a public company in 1906 and was listed on the ASX in 1920. It acquired land on Market Street, Sydney and the Elizabeth Street store was opened in 1927. In 1982, it acquired Melbourne department store, Buckley & Nunn Pty Ltd, including its Bourke Street properties and the David Jones Bourke Street store was opened in the same year. Today, David Jones is a national department store chain operating at the premium end of the market. It operates 38 stores throughout Australia including 33 full scale stores, three smaller "village format" stores and two warehouse outlets as well as the David Jones webstore.

David Jones has long operated a financial services business, first introducing credit facilities in the 1960s. In February 2008, David Jones entered into a strategic alliance with American Express Australia Limited ("American Express") which involved the launch of a David Jones branded American Express card and the transfer of David Jones' existing store card receivables to American Express. The agreement provided David Jones with a minimum of 7.5% annual growth over forecast FY08 EBIT of $38 million to July 2013, after which the agreement was converted into a profit sharing arrangement. The business currently has three products: the David Jones Store Card, the David Jones American Express Gold Card and the David Jones American Express Platinum Card. At 27 July 2013, it had a total of 390,000 active cards.

4.2 Business Strategy

4.2.1 Background

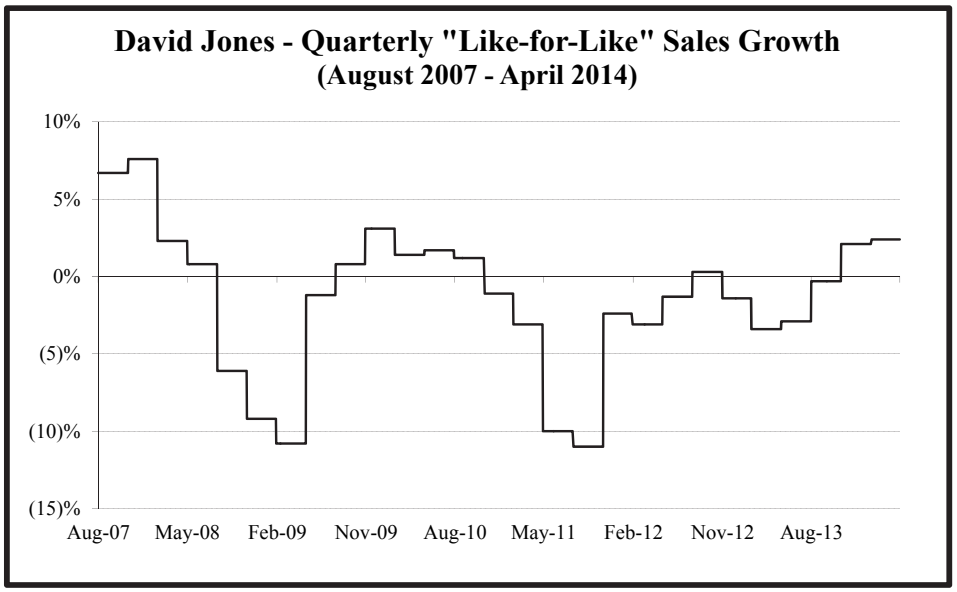
David Jones' portfolio of exclusive brands attracts discretionary spending that is impacted by consumer sentiment and, as a consequence, sales are strongly leveraged to economic cycles. Its customer base tends to be upper income consumers whose spending is also related to wealth effects.

David Jones' "like-for-like"[8] quarterly sales fell substantially following the onset of the global financial crisis in late 2007 but recovered from late 2008 to low single digit growth, albeit off a lower base. However, from late 2010 the business was adversely impacted by difficult macroeconomic conditions and the structural changes facing the retail sector. In particular, the appreciation of the Australian dollar:

- contributed to a number of highly competitive product categories (e.g. electronics) experiencing price deflation, compressing gross margins, at a time when labour, utilities and rental expenses continued to increase resulting in significant declines in gross margin and EBIT; and
- resulted in substantial price discrepancies between David Jones' products and identical or broadly equivalent products sold overseas. Approximately 30% of David Jones' sales were affected. David Jones' ability to compete with online retailers was also limited by the scope and capabilities of its website (launched in 2004).

These factors resulted in several quarters of continuous "like-for-like" sales declines between late 2010 and mid 2012:

[8] "Like-for-like" includes stores open and trading for more than one year, stores under refurbishment and online sales. "Like-for-like" sales comparisons measure the change in sales between the current period and the corresponding period of the previous year.



Source: David Jones
Note: Quarterly "like-for-like" sales growth measures the change in sales for a particular quarter compared to sales for the corresponding quarter of the previous year.

The sales declines in late FY11 left David Jones with substantial excess inventory (inventory peaked at $288.9 million at 30 July 2011).

David Jones' financial services business was also adversely impacted in this period as a result of the deterioration of the discretionary retail environment and a higher savings rate. Although profits from the financial services business remained elevated as a result of the guarantee with American Express, David Jones advised that EBIT from the business is expected to halve in FY14 following its conversion to a profit share basis.

4.2.2 Future Strategic Direction Plan

In order to address the challenges faced, David Jones announced a Future Strategic Direction Plan on 21 March 2012. The plan has been refreshed over the last two years. The key elements of the plan are:

- addressing structural changes in the retail sector by:
  - transforming from a "bricks and mortar" retailer into an "omni channel retailer" that provides an integrated shopping experience across sales channels and support functions (i.e. physical stores, website, mobile applications, social media and contact centre); and
  - addressing international price discrepancies through a cost price harmonisation program;
- strengthening the core business by:
  - growing sales:
    - enhancing customer service and engagement to differentiate David Jones from its competitors;
    - targeting new customers;
    - increasing foot traffic, conversion and customer engagement;
    - offering new brands; and
    - opening new stores and refurbishing existing stores;
  - restoring gross profit margins to a long term target range of 39.5-40.0% by:
    - exiting low productivity categories;

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- improving category mix;
- increasing private label; and
- technology initiatives;

- reducing the "cost of doing business"[9] by approximately $30 million over three years to offset some of the expected cost increases; and
- managing inventory levels;

- enhancing its store network through:
  - opening full line department stores in high value locations and smaller village format stores;
  - refurbishing stores; and
  - closing underperforming stores.
- building a sustainable financial services business; and
- maximising the value of its property portfolio.

The plan aimed to create a sustainable business model that was well positioned to leverage sales growth when macroeconomic conditions improved. It was anticipated that implementation of the strategy would require capital expenditure per annum of approximately $70-80 million.

4.2.3 Progress to Date

David Jones is currently two years into the three year plan. Although significant progress has been made (as discussed below by key element), the full impact of the plan is not expected to be realised until after FY15.

(i) Addressing Structural Retail Changes

Omni Channel Retailing

During FY13, David Jones established a new fulfilment centre, a call centre, a production studio and implemented information technology systems to address logistics and back office processes.

In November 2012, it launched a new webstore with 90,000 stock keeping units ("SKUs"), a mobile enabled webstore and a magazine for iPads with purchasing capability. Since then David Jones has continued to enhance its webstore. In August 2013, it introduced expanded delivery options, improved website design, an online gift registry and "Click & Collect" which enables customers to nominate a physical store to collect a product. It also introduced the use of affiliate marketing and retargeting marketing (i.e. serving targeted advertisements to consumers after they have left a website) to drive traffic onto David Jones' website. It has expanded the online product offering to 120,000 SKUs at the peak Christmas season. The webstore accounted for 2% of total sales in the first half of FY14 and David Jones aims to increase this to 10% by FY18.

The next phase of the online strategy involves increasing the number of digital contacts (e.g. email addresses) from around one million currently to two million by FY15 and introducing a customer data analytics program in order to target customers more effectively.

Cost Price Harmonisation

In March 2012, David Jones commenced a cost price harmonisation program which aims to reduce prices of products from international suppliers to levels that enable selling prices to

[9] Refers to operating expenses (including depreciation) in relation to the department stores segment and is net of sundry income.

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be within 10% of the prices offered internationally (while maintaining gross margin percentages). David Jones identified approximately 250 existing brands that required price harmonisation and has been in discussion with the brand owners or agents to adjust prices accordingly. Prices for all new brands are now aligned before they enter the business and negotiations to align pricing of existing brands are almost complete. Retail price reductions and the consequent reductions in gross margin dollars have been offset by volume increases.

(ii) Strengthening the Core Business

Growing Sales

A number of initiatives to improve customer service have been introduced including increasing sales staff ratios and introducing a new point of sale system, style advisors, personal shopping suites and a frontline staff incentive and rewards program. In October 2013, it launched a new staff education program to improve service standards. These initiatives have been reflected in improved customer feedback.

David Jones is targeting a number of new customer segments including the inbound Asian tourist market by accepting UnionPay, the Chinese national debit and credit card. New product categories are being targeted by entering exclusive agreements with brands such as Lorna Jane (active wear), Hugo Boss and Brooks Brothers (career wear) and Talulah (young fashion) and through the introduction of more digitally focused, interactive marketing (young fashion). In January 2014, David Jones launched a "Shop with Points" program enabling all American Express cardholders (including David Jones American Express cardholders) that are enrolled in the American Express Membership Rewards Program to redeem points to pay for purchases on David Jones' webstore.

David Jones is also targeting increased in-store foot traffic and conversion by introducing promotional events (e.g. the Bridal Expo), rolling out traffic analytics throughout the store network and installing complimentary wi-fi (enabling David Jones to acquire customer email addresses).

While brand changes are an inherent part of department store retailing, David Jones has become more active in reshaping its brand portfolio. To replace underperforming brands it has introduced approximately 140 new national and international brands in FY13 and 100 new brands in the first half of FY14.

Maximising Gross Profit Margins

Over the last 12 months, David Jones has completed the exit from highly competitive product categories that have experienced price deflation including outdoor furniture, music, DVDs and electronic games. In August 2013, David Jones entered into a retail brand management agreement ("RBMA") with Dick Smith Electronics Pty Ltd ("Dick Smith") pursuant to which Dick Smith would operate the David Jones Electronics business from 1 October 2013. David Jones receives a minimum guaranteed contribution from this business regardless of sales volume while also receiving additional payments when sales exceed the minimum guaranteed base. The initial term of the agreement is three years with three subsequent 12 month options to renew.

In March 2013, David Jones announced plans to increase its private label business to 10% of sales by FY17. The main focus will be on basic product lines (e.g. sheets, plain crockery) to avoid "design risk". In the first half of FY14, private label merchandise was introduced in certain categories such as jewellery, shoes, bags, small leather goods, men's and women's basics, childrenswear and business shirts.

A number of technology projects are planned through to FY16 including a new merchandise planning system, offering promotions at point of sale (expected to complete by the first quarter of FY15) and an automated rebate management system (implemented in FY14).

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Managing Operating Costs

In the first half of FY14, David Jones introduced a new workforce management system, a new point of sale system, reduced energy costs through energy efficient lighting and the upgrade of air conditioning and refrigeration and achieved marketing efficiencies. In addition, the concession agreement with Dick Smith has reduced labour costs. To date, a significant portion of the targeted cost savings has been achieved, helping negate the impact of inflation on the overall cost base.

Future initiatives include a new human resources information system and automated supply chain delivery compliance. It is also planning to exit poorly performing stores as leases expire. David Jones has identified six leases in weak demographic areas due to expire in the next four years. David Jones expects that any closure would result in no loss in EBIT, with a proportion of sales expected to be retained through online sales or nearby stores. In this context, it has decided not to renew leases at its Birkenhead Point (New South Wales) and Harbour Town (Queensland) warehouse stores when leases expire in September 2014 and June 2015, respectively.

Inventory Management

To reduce inventory levels, David Jones has increased the number of staggered intakes of inventory received throughout each season and in the first half of FY14, launched a new consignment stock system enabling David Jones to carry less inventory and delay payment for inventory until goods are actually sold. The transfer of the Electronics category to Dick Smith reduced inventory levels by approximately $20 million.

(iii) Enhancing the Store Network

The plan for enhancing the store network involves closing underperforming stores in locations where the demographics are not consistent with David Jones' target market and opening new village format stores and full scale stores in high growth areas as well as refurbishing selected, high value stores. New stores and refurbishments increase productivity by allowing David Jones to increase the share of floor space dedicated to selling space and shifting the category mix away from lower margin categories. Although disruptive to sales during construction, refurbishments increase foot traffic and sales growth once complete.

Village format stores are smaller in size and focus exclusively on high margin fashion and beauty categories. The format is based on the successful Claremont Quarter (Western Australia) store which was relaunched in February 2011. David Jones opened the new Malvern Central (Victoria) store in September 2013.

David Jones is also opening new full scale stores. The Highpoint (Victoria) store was opened in March 2014, the Indooroopilly (Queensland) store was opened in May 2014 and the Macquarie Centre (New South Wales) store is expected to be opened in FY15. David Jones also has agreements to lease department stores in Pacific Square (New South Wales), Sunshine Plaza (Queensland) and Eastland Shopping Centre (Victoria). In March 2014, it announced that it would not proceed with the Whitford (Western Australia) store. It has not identified any additional new stores beyond these.

In FY13, David Jones refurbished certain levels of the Elizabeth and Market Street (New South Wales) stores as well as the Bondi Junction (New South Wales) and Canberra (Australian Capital Territory) stores. It also refurbished the Toowong Village (Queensland) store to reflect the village format in September 2012. It is currently undertaking refurbishments at Miranda (New South Wales) and Adelaide Central Plaza (South Australia) which are due to be completed by October 2014.

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David Jones aims to allocate 85% of gross lettable area in new stores and 80% of the area in refurbished stores to selling space. Over the last three years, selling space has increased from 73% of the portfolio's gross lettable area to 76% and this is expected to increase further as additional new stores are opened and existing stores are refurbished. It has also increased the share of floor space allocated to higher margin fashion and beauty categories from 50% to 60% of selling space. The strategy is to increase this to 75% over time (e.g. through the refurbishment program). New stores will also target this mix.

(iv) Building a Sustainable Financial Services Business

In the second half of FY12, David Jones introduced a David Jones American Express Platinum Card and Qantas Frequent Flyer points as a reward option under the David Jones Platinum and Gold American Express cards. It also introduced 21 new cardholder events and renewed the promotion of the David Jones Store Card including reintroduction of applications at registers in-store. These initiatives increased the number of American Express Cards (Platinum and Gold) by 4.2% in FY13. In May 2013, David Jones Reward Points were introduced for the Store Card.

The "Shop with Points" program launched in January 2014 is expected to be introduced in all David Jones stores in FY15 enabling purchases to be made at any point of sale terminal via the redemption of points.

David Jones continues to explore opportunities to expand its financial services business through arrangements with other organisations.

4.2.4 Concession Arrangements

Increasingly, David Jones is operating concession arrangements whereby a retailer rents space in the department store, employs its own sales staff, retains ownership of the inventory (until immediately prior to sale) and makes pricing decisions. The rent received by the department store is a percentage of revenue (sometimes with a fixed component). The net impact is typically a reduced gross margin percentage but also a lower cost of doing business. Even if there is minimal profit impact these arrangements reduce inventory risk and margin risk.

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4.3 Financial Performance

The historical financial performance of David Jones for the four years ended 27 July 2013 and six months ended 25 January 2014 is summarised below:

David Jones - Financial Performance ($ millions)

	Financial year ended				26 weeks ended
	31 July 2010 actual	30 July 2011 actual	28 July 2012 actual	27 July 2013 actual	25 January 2014 actual
Trading weeks	*53*	*52*	*52*	*52*	*26*
Revenue from sale of goods	**2,053.1**	**1,961.7**	**1,867.8**	**1,845.0**	**1,025.1**
Gross profit	**815.7**	**767.3**	**699.8**	**706.1**[10]	**406.1**
- Department stores EBITDAR	333.0	328.4	241.1	244.6	170.7
- Financial services EBITDAR	44.4	47.7	49.4	49.5	11.6
Total EBITDAR[11]	**377.4**	**376.1**	**290.5**	**294.1**[10]	**182.3**
Rental expense	(84.4)	(83.8)	(84.3)	(88.3)	(47.9)
- Department stores EBITDA	248.6	244.6	156.8	156.3[10]	122.8
- Financial services EBITDA	44.4	47.7	49.4	49.5	11.6
Total EBITDA[12]	**293.0**	**292.3**	**206.2**	**205.8**[10]	**134.4**
Depreciation and amortisation	(43.8)	(45.8)	(51.9)	(56.8)	(31.2)
- Department stores EBIT	204.8	198.8	104.9	99.5[10]	91.6
- Financial services EBIT	44.4	47.7	49.4	49.5	11.6
Total EBIT[13]	**249.2**	**246.5**	**154.3**	**149.0**[10]	**103.2**
Net interest expense	(7.1)	(7.2)	(10.5)	(8.6)	(3.5)
Significant and non-recurring items	-	-	-	(9.1)[14]	-
Operating profit before tax	**242.1**	**239.3**	**143.8**	**131.3**	**99.7**
Income tax expense	(71.3)	(71.2)	(42.7)	(36.1)	(29.6)
Profit after tax attributable to David Jones shareholders	**170.8**	**168.1**	**101.1**	**95.2**	**70.1**
Statistics					
Basic earnings per share	*34.0¢*	*33.0¢*	*19.4¢*	*19.2¢*	*13.1¢*
Dividends per share	*30.0¢*	*28.0¢*	*17.5¢*	*17.0¢*	*10.0¢*
Dividend payout ratio	*89.2%*	*86.2%*	*91.0%*	*94.4%*	*na*
Total sales revenue growth	*2.0%*[15]	*(3.4%)*[15]	*(4.8%)*	*(1.2%)*	*3.6%*
"Like-for-like"[8] *sales revenue growth*	*1.9%*[15]	*(3.2%)*[15]	*(4.3%)*	*(1.8%)*	*1.1%*
Department stores EBIT growth	*11.1%*	*(2.9%)*	*(47.2%)*	*(5.2%)*	*8.3%*
Financial services EBIT growth	*7.5%*	*7.5%*	*3.6%*	*0.1%*	*(52.7%)*
Overall EBIT growth	*10.4%*	*(1.1%)*	*(37.4%)*	*(3.4%)*	*(5.5%)*
Gross profit margin	*39.7%*	*39.1%*	*37.5%*	*38.3%*	*39.0%*
Cost of doing business ratio[16]	*29.8%*	*29.0%*	*31.8%*	*32.9%*	*30.2%*
Department stores EBIT margin	*10.0%*	*10.1%*	*5.6%*	*5.4%*	*8.8%*
Overall EBIT margin	*12.1%*	*12.6%*	*8.3%*	*8.1%*	*9.9%*
EBITDA interest cover[17]	*41.0x*	*40.9x*	*19.5x*	*24.0x*	*28.5x*[18]
EBITDAR fixed charge cover[19]	*4.1x*	*4.1x*	*3.1x*	*3.1x*	*3.0x*[18]

Source: David Jones and Grant Samuel analysis

10 Excluding the impact of the Dick Smith transaction.

11 EBITDAR is earnings before net interest, tax, depreciation and amortisation, rental expense and significant and non-recurring items.

12 EBITDA is earnings before net interest, tax, depreciation and amortisation and significant and non-recurring items.

13 EBIT is earnings before net interest, tax and significant and non-recurring items.

14 Provision for loss on sale of inventory to Dick Smith as part of the conversion of Electronics to an RBMA.

15 Adjusted to 52 weeks basis.

16 "Cost of doing business" includes employee benefits expenses, lease and occupancy expenses, depreciation and amortisation, marketing expenses, administration and other expenses in relation to the department stores segment (i.e. excludes expenses related to the financial services segment) and is net of sundry income.

17 EBITDA interest cover is EBITDA divided by net interest.

18 Based on twelve months of trading.

19 EBITDAR fixed charge cover is EBITDAR divided by fixed charges (i.e. net interest and rental expense).

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As discussed in Section 4.2.1, David Jones' department store sales revenue declined in FY11 and FY12 as a result of weak retail market conditions and structural changes in the retail industry. The decline moderated in FY13 and both "like-for-like" and total sales increased in the first half of FY14 reflecting initiatives undertaken as part of the strategic plan and a stronger December 2013/January 2014 trading season. The 1.1% increase in "like-for-like" sales mainly reflects growth in online sales (0.9% contribution) with existing store growth contributing 0.2%. Total sales increased at a higher rate of 3.6% as a result of the opening of the Highpoint (Victoria) store in March 2013 and the Malvern (Victoria) store in September 2013. In the third quarter of FY14, total sales increased 4.1% and "like-for-like" sales increased 2.4%.

Gross margin declined in FY11 and FY12 primarily as a result of price deflation of certain products and increased levels of discounting. Excluding the impact of the Dick Smith transaction, gross profit margin increased to 38.3% in FY13 reflecting a reduction in the breadth and depth of discounting and the absence of exit costs that arose in the previous year. However, in the first half of FY14 gross margin was flat at 39.0% (relative to the first half of FY13) as initiatives introduced were offset by price pressure from aggressive discounting across the market, costs associated with the exit from low productivity categories and the shift of Electronics to the Dick Smith RBMA.

Department store EBIT declined significantly in FY12 and again in FY13, reflecting lower gross profit as well restructuring costs associated with the implementation of the strategic plan ($11 million in FY12 and $1 million in FY13 which were not treated as significant items), higher depreciation resulting from expenditure on information technology, increases in wages, utilities and rent and higher lease and occupancy costs from new stores. In the first half of FY14, EBIT increased by 8.3% (compared to the first half of FY13) as higher operating costs were more than offset by lower marketing and salary expenses as a result of an increase in the concession business (in particular, the Dick Smith RBMA) and a deferral of payments under the short term incentive plan (which reduced employee benefits expenses). It should be noted that David Jones has significant seasonal variation with sales and earnings weighted to the first half which includes the key Christmas trading period.

Financial services EBIT to the end of FY13 was underwritten by the profit guarantee from American Express. EBIT increased steadily to FY12 and remained flat in FY13 as fixed EBIT growth set out in the American Express agreement was offset by investment in the rollout of new initiatives. In the first half of FY14, EBIT halved as the agreement converted to a profit sharing arrangement from August 2013. The full year EBIT decline is expected to be proportionate to the decline in the first half of FY14.

Under the Australian tax consolidation regime, David Jones and its wholly owned Australian resident entities have elected to be taxed as a single entity. At 25 January 2014, David Jones had $62.3 million in accumulated franking credits and no carried forward income tax or capital losses.

Dividends per share were decreased in FY12 in line with the decline in earnings per share. David Jones aims to pay a dividend of at least 85% of earnings per share. All dividends are fully franked.

Outlook

David Jones has not publicly released earnings forecasts for FY14 or beyond. In order to provide an indication of the expected future financial performance of David Jones, Grant Samuel has considered brokers' forecasts for David Jones (see Appendix 1) as follows:

David Jones – Financial Performance ($ millions)			
	Financial year end		
	27 July 2013 actual	26 July 2014	25 July 2015
		Broker Consensus (Median)	
Revenue from sale of goods	1,845.0	1,918.8	2,012.0
EBITDA	205.8[20]	197.9	220.2
EBIT	149.0[20]	135.4	155.2
Net profit after tax	101.6[20]	91.1	104.4
Earnings per share	19.2¢[20]	17.0¢	19.0¢
Dividends per share	17.0¢	16.0¢	17.0¢

Source: Grant Samuel analysis (see Appendix 1)

Although David Jones has not provided specific earnings guidance, it gave a broad indication of the outlook on release of the Future Strategic Direction Plan in March 2012 as well as some specific targets such as restoring gross profit margins to a long term target range of 39.5-40% (based on the then mix of sales).

At the time of release of the first half results for FY14 on 19 March 2014, the Chief Executive Officer stated:

> *"Our Future Strategic Direction Plan is gaining momentum and delivering results … Our Department Store business is delivering good EBIT growth. We have strong brand and market positioning which holds us in good stead for future growth … We have a robust business model with good growth prospects."*

[20] Before losses related to the Dick Smith RBMA transaction.

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4.4 Financial Position

The financial position of David Jones as at 27 July 2013 and 25 January 2014 is summarised below:

David Jones - Financial Position ($ millions)		
	As at 27 July 2013 actual	**As at 25 January 2014 actual**
Debtors and prepayments	25.8	35.3
Inventories	251.5	224.8
Creditors, accruals and provisions	(300.5)	(305.8)
Net working capital	**(23.2)**	**(45.7)**
Property, plant and equipment (net)	835.4	808.6
Goodwill	30.3	30.3
Software (net)	14.3	19.0
Derivative financial instruments (net)	0.8	0.9
Shares in other companies	-[21]	-[21]
Prepayments (non current)	0.7	1.2
Deferred tax assets (net)	62.4	59.9
Non current assets held for sale	2.6[22]	-
Lease accrual for straight line adjustment	(28.3)	(26.0)
Provisions (non current)	(7.4)	(8.4)
Total funds employed	**887.6**	**839.9**
Cash and deposits	13.9	45.7
Bank loans, other loans and finance leases	(100.4)	(45.1)
Net borrowings	**(86.5)**	**0.6**
Net assets attributable to David Jones shareholders	**801.1**	**840.5**
Statistics		
Shares on issue at period end (million)	*533.7*	*535.9*
Net assets per share	*$1.50*	*$1.57*
NTA[23] per share	*$1.42*	*$1.48*
Gearing[24]	*9.7%*	*(0.1%)*

Source: David Jones and Grant Samuel analysis

As with many retailers, David Jones enjoys a low investment in net working capital because of the largely cash nature of its sales (i.e. minimal debtors). In fact, working capital at balance dates was negative.

Inventory is the key working capital factor to manage. Inventory levels at January and July represent a low point in the inventory cycle, with peaks occurring in November and May when stock is purchased prior to the peak sales periods. David Jones has successfully reduced excess inventory throughout FY13 and in the first half of FY14. Aged inventory (i.e. over 12 months old) at 25 January 2014 was below the internal benchmark of 5%.

Property plant and equipment of $808.6 million at 25 January 2014 includes land, buildings and integral plant ($451.8 million) related to David Jones' flagship stores in Sydney and Melbourne. The balance is mainly leasehold improvements, fixtures and fittings and information technology assets. A material proportion of non property fixed assets is fully depreciated.

Goodwill relates to the acquisition of a group of department stores in Western Australia ($10.3 million) and a department store in New South Wales ($20.0 million). In the two years since announcement of the strategic plan, David Jones' investment in software (net) has increased from $4.0 million at 28 January 2012 to $19.0 million at 25 January 2014.

21 Less than $50,000.
22 Reflects the written down value of assets to be transferred to Dick Smith.
23 NTA is net tangible assets, which is calculated as net assets less intangible assets (which includes goodwill and software).
24 Gearing is net borrowings divided by net assets plus net borrowings.

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The lease accrual of $26.0 million arises due to fixed rental increases on operating leases being recognised on a straight line basis over the term of the lease.

Non current provisions at 25 January 2014 relate mainly to employee entitlements and lease make good.

David Jones is conservatively geared. Net borrowings is highly seasonal and reaches a peak in May and November following the payment for stock for key sales periods and is at its lowest at the end of the January sales period. As at 25 January 2014, David Jones had $375 million of unsecured bank loan facilities expiring between 15 December 2014 and 15 December 2016 ($45.0 million drawn), an uncommitted short term trade finance facility of $25.0 million and unsecured bank overdraft facilities of $29.4 million ($64,000 drawn). Cash of $45.7 million includes cash in tills of $8.1 million.

David Jones leases its warehousing facilities and the majority of its retail premises under long term contracts which have an average term of 25 years and contain renewal options. At 27 July 2013, David Jones had $1,325.1 million of gross (undiscounted) operating lease commitments not reflected in its financial position.

Other liabilities not reflected in the financial position include capital expenditure commitments ($7.3 million at 27 July 2013) and contingent liabilities related to indemnities to third parties.

4.5 Cash Flow

From FY11 to FY13, net cash generated by David Jones increased despite the decline in EBITDA as a result of reductions in inventory levels in 2012 and 2013 and reduced dividends.

David Jones - Cash Flow ($ millions)

	Financial year ended				Six months ended
	31 July 2010 actual	30 July 2011 actual	28 July 2012 actual	27 July 2013 actual	25 January 2014 actual
Trading weeks	*53*	*52*	*52*	*52*	*26*
Total EBITDA	**293.0**	**292.3**	**206.2**	**205.8**[10]	**134.4**
Changes in working capital and other adjustments	(34.4)	(42.9)	60.5	26.2	8.4
Capital expenditure (net)	(79.7)	(81.5)	(81.4)	(78.8)	(7.1)
Operating cash flow	**178.9**	**167.9**	**185.3**	**153.0**	**135.7**
Tax paid	(47.6)	(59.8)	(59.5)	(43.3)	(13.6)
Net interest paid	(7.1)	(7.1)	(10.5)	(8.6)	(3.5)
Dividends paid	(117.8)	(130.2)	(110.6)	(72.3)	(31.4)
Other (net)	(4.5)	(4.6)	-	-	-
Net cash generated (used)	**1.9**	**(33.8)**	**4.7**	**29.0**	**87.2**
Net cash (borrowings) – opening	*(88.3)*	*(86.4)*	*(120.2)*	*(115.5)*	*(86.5)*
Net cash (borrowings) – closing	*(86.4)*	*(120.2)*	*(115.5)*	*(86.5)*	*0.7*

Source: David Jones and Grant Samuel analysis

Capital expenditure has remained fairly steady across the period and was broadly within the target range of $70-80 million per annum set out in the strategic plan, although, over time, an increasing portion has been allocated to software and computer equipment.

Substantial positive net cash generated in the first half of FY14 reflects the seasonality of the business (with a majority of sales occurring in the first half of the financial year), further reductions in inventory levels and the relatively low level of capital expenditure in the first half of 2014 (partly due to approximately $20 million capital contributions from landlords that related to prior periods). Capital expenditures in the second half of FY14 are expected to bring total capital expenditure for the year to within the target range.

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4.6 Capital Structure and Ownership

David Jones has 537,137,845 ordinary shares on issue. There are approximately 65,000 registered shareholders in David Jones. The top twenty shareholders account for around 53% of the ordinary shares on issue and are principally institutional nominee or custodian companies. David Jones has a significant retail investor base and shareholders are predominantly Australian based investors.

David Jones has received notices from the following substantial shareholders:

David Jones – Substantial Shareholders

Shareholder	Date of Notice	Number of Shares	Percentage
The Goldman Sachs Group, Inc.	27 March 2014	49,242,713	9.17%
BlackRock, Inc.	27 December 2013	28,942,029	5.38%

Source: David Jones

4.7 Management Incentive Plan

In FY13, David Jones introduced the LTIP under which senior executives are granted performance rights over unissued (or unallocated) David Jones ordinary shares. Each performance right is converted into one ordinary share for nil consideration, providing performance criteria and service conditions (i.e. the employee must remain employed by David Jones at the date of vesting) are met. Vesting is contingent on two equally weighted performance criteria assessed over a three year period – David Jones' total shareholder returns relative to a peer group of ASX listed companies in the consumer discretionary sector and its compound earnings per share growth.

Performance rights were granted in FY13 (with a performance period of FY13 to FY15) and FY14 (with a performance period of FY14 to FY16). David Jones has on issue 1.0 million performance rights granted in FY13 and 1,035,000 performance rights granted in FY14.

In the absence of a change of control, performance rights vest in September 2015 and September 2016, respectively. The directors of David Jones have certain powers which they can exercise, including in respect of a change of control, which impact on whether performance rights vest. The LTIP rules contemplate that, unless the directors exercise certain powers given to them under the LTIP rules, the performance criteria will be assessed pro rata against performance from the commencement of the performance period until the date of the change of control, with the number of rights that can also vest pro rated based over this period.

As at 17 July 2014 (the expected implementation date of the scheme in relation to the Woolworths Offer), approximately two thirds of the performance period for rights granted in FY13 and one third of the performance period for the rights granted in FY14 will have elapsed.

4.8 Property

David Jones owns the freehold title for its flagship stores in the CBDs of Sydney and Melbourne. There are four individual properties:

David Jones – Overview of Property		
Site	**Existing Use**	**Key Statistics**
Market Street, Sydney	Departments include: ▪ Menswear ▪ Shoes and accessories ▪ Homewares ▪ Electrical ▪ Foodhall	Site area = 2,528m^2 Floor space area = 32,015m^2 13 floors: - 9 retail - 2 offices - 2 back of house
Elizabeth Street, Sydney	Departments include: ▪ Women's fashion ▪ Shoes and accessories ▪ Beauty ▪ Childrenswear and toys ▪ Homewares	Site area = 3,533m^2 Floor space area = 38,878m^2 12 floors: - 8 retail - 3 offices - 1 back of house
310 Bourke Street, Melbourne (Women's Store)	Departments include: ▪ Women's fashion ▪ Shoes and accessories ▪ Beauty ▪ Childrenswear and toys ▪ Homewares	Site area = 3,901m^2 Floor space area = 25,014m^2 7 floors: - 6 retail - 1 back of house
299 Bourke Street, Melbourne (Men's Store)	Departments include: ▪ Menswear ▪ Shoes and accessories ▪ Furniture ▪ Foodhall ▪ Homewares	Site area = 2,232m^2 Floor space area = 14,504m^2 7 floors: - 5 retail - 2 back of house

Source: David Jones

David Jones entered a sale[25] and leaseback for the stores in November 2000. The arrangements were unwound in September 2006 with the stores being bought back by David Jones for a price of $413.6 million.

In 2012, David Jones engaged an independent property consultant to assess the value of the properties. The assignment was not a formal valuation but was an estimate of the hypothetical sale value based on existing use and certain assumptions as to the rental stream. The consultant estimated a value of $612 million (compared to book value, including integral plant, of $451.8 million).

As part of its ongoing strategy, David Jones began examining opportunities to optimise the value of its property interests in 2012. This project has considered both:

- the potential redevelopment of the properties by building additional floors above the existing stores either as commercial office space, hotel or residential units (referred to as development of the "air rights"); and
- the sale and leaseback of the portfolio either with or without the redevelopment.

Preliminary analysis conducted by management indicates that, at this point in time (and under current planning requirements), air rights development over the two Melbourne stores is less economically viable and is therefore not currently being pursued. Of the two Sydney properties, the Market Street store offers the most potential and is the primary focus at this point in time.

In February 2014, David Jones lodged a preliminary development application with Sydney City Council for development of the air rights over the Market Street property. This was an early stage application based on broad concepts (physical envelopes) rather than detailed design (or nominated use). Sydney City Council has provided an initial response which is largely supportive of the company's proposal.

In March 2014, David Jones appointed Colliers International to manage a process to seek expressions of interest from developers in relation to the Market Street property. An information memorandum was expected to be issued in the fourth quarter of 2014. Following the Woolworths Offer, this process has been suspended.

[25] Technically a 999 year lease.

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4.9 The Myer Proposal

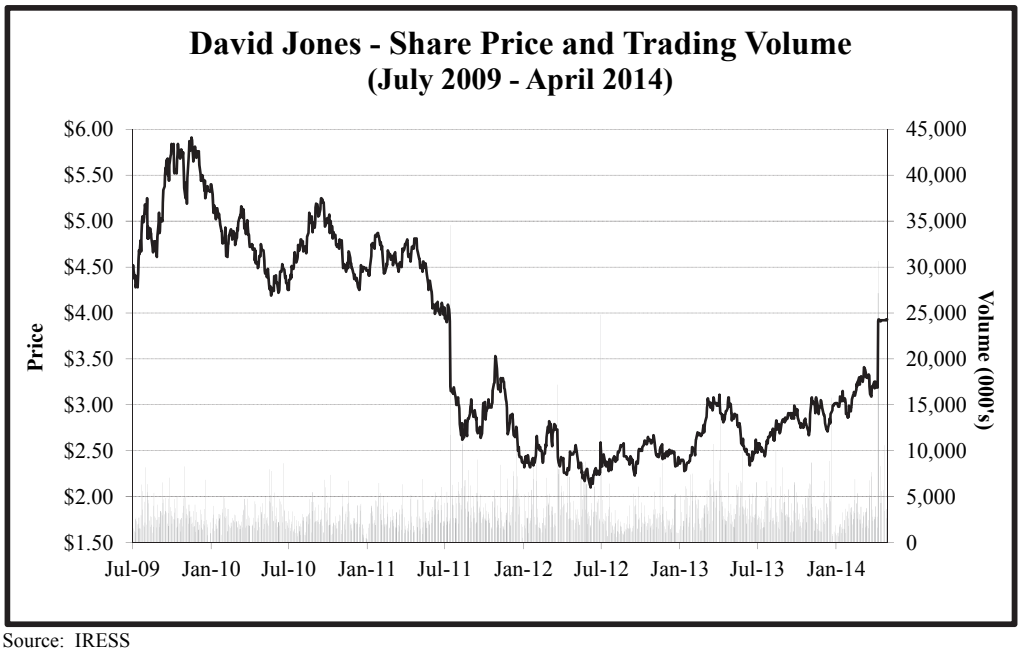
On 28 October 2013, Myer approached David Jones with a proposal for a nil premium merger ("the Myer Proposal"). On 27 November 2013, the Myer Proposal was rejected by David Jones as not representing sufficient value for David Jones shareholders. As the Myer Proposal was confidential, incomplete and non-binding, the proposal and David Jones' response were not made public.

On 30 January 2014, following newspaper speculation about the Myer Proposal, David Jones confirmed that it had been approached in October 2013. This was confirmed by Myer on 31 January 2013 and, on 20 February 2014, Myer publicly reiterated its willingness to progress such a proposal. In March 2014, David Jones announced the re-appointment of Port Jackson Partners Limited as strategic adviser to assist in reviewing the potential for synergies in a merger between David Jones and Myer.

Following the announcement of the Woolworths Offer, Myer announced that it would no longer pursue its merger proposal.

4.10 Share Price Performance

The following graph illustrates the movement in the David Jones share price and trading volumes since 1 July 2009:



Source: IRESS

Following the onset of the global financial crisis in late 2007 the David Jones share price declined from a high of $5.81 on 26 July 2007 to a low of $2.02 on 10 March 2009, before rebounding strongly as sales growth turned positive to reach a new high of $5.96 on 17 November 2009. From then, the share price declined gradually as sales growth deteriorated. The share price fell sharply (by 18.2%) on 14 July 2011 when David Jones revised "like-for-like" sales growth guidance for the fourth quarter of FY11 following a weak June/July clearance sale. It fell further following the October 2011 quarterly sales announcement to reach a low of $2.10 on 6 June 2012. The share price remained depressed until February 2013, trading broadly in the range $2.20-2.60. In March and April 2013, the share price briefly traded above $3.00 and then fell back to around $2.50, broadly in line with stock market movements.

From mid June 2013, the share price steadily recovered as the overall market strengthened and retail market conditions improved despite disruptions from the resignation of the CEO and director share trading issues. By late 2013/early 2014, David Jones shares were trading at around $3.00.

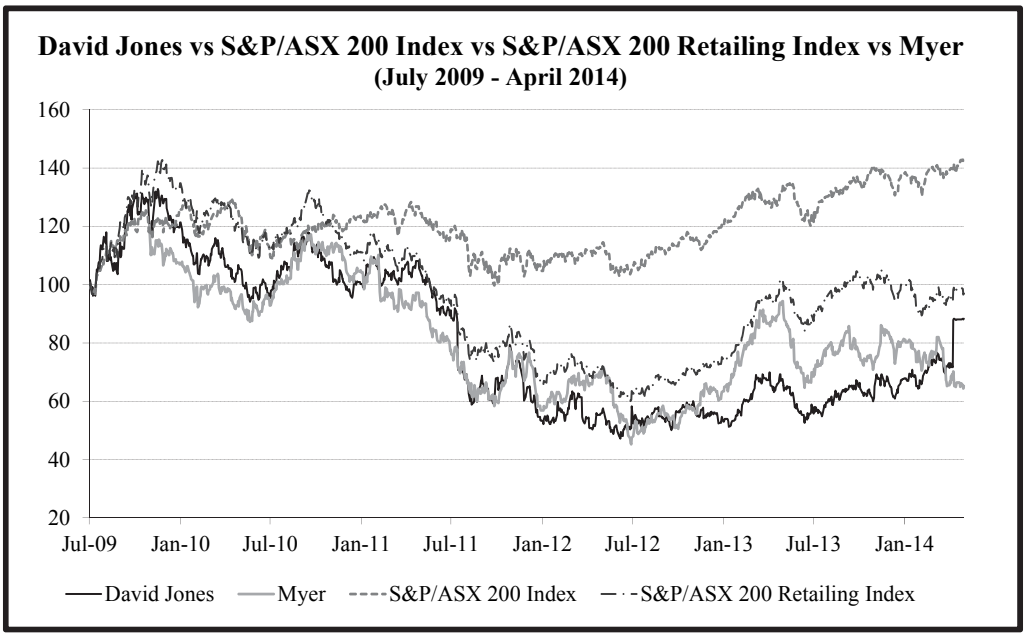
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In January 2014, there was increased trading activity and market speculation as to a potential transaction with Myer. The share price rose further following the announcement on 30 January 2014 that the David Jones board had rejected the Myer Proposal. The price remained at levels around $3.30, supported by subsequent announcements on 7 February 2014 that David Jones had lodged a preliminary development application for the Market Street store and on 13 February 2014 releasing the second quarter FY14 sales results (which showed total sales growth of 4.7% and "like-for-like" sales growth of 2.1%).

In the month prior to the announcement of the Woolworths Offer on 9 April 2014, the David Jones share price traded in the range $3.06-3.44 at a volume weighted average price ("VWAP") of $3.21. Since then it has traded in the range $3.91-4.00 with a VWAP of $3.93.

David Jones has been a reasonably liquid stock. Average weekly volume over the twelve months prior to the announcement of the Woolworths Offer represented approximately 3.1% of average shares on issue or annual turnover of around 164% of total average issued capital.

David Jones is a member of various indices including S&P/ASX 200 Index, S&P/ASX 200 Consumer Discretionary Index, S&P/ASX 200 Retailing Index (which excludes groceries and other food) and S&P/ASX 200 Department Stores Index (of which Myer is the only other member). At 8 April 2014 (the day immediately prior to the announcement of the Woolworths Offer) its respective weighting in these indices was approximately 0.12%, 2.04%, 9.69% and 55.99%. The following graph illustrates the performance of David Jones shares since 1 July 2009 relative to the S&P/ASX 200 Index, the S&P/ASX 200 Retailing Index and Myer:



Source: IRESS
Note: The Myer share price has been rebased to the David Jones indexed price from initial public offering on 30 October 2009.

David Jones, Myer and the S&P/ASX 200 Retailing Index underperformed the S&P/ASX 200 Index from mid 2010 until mid 2012 as non-food retailers were impacted by weak trading conditions and as structural changes in the retail sector (i.e. a shift to online) took effect over the following two years. David Jones and Myer both underperformed other non-food retailers, reflecting the relatively greater adverse impacts on department stores.

The David Jones share price has broadly tracked the Myer share price, other than brief periods of underperformance and outperformance. In particular, David Jones underperformed Myer following its profit downgrade on 14 July 2011 and its November 2012 announcement of first quarter FY13 sales growth of 0.3% (substantially below that of Myer (0.8%)) and outperformed Myer from mid 2013 to January 2014 as expectations emerged of stronger relative performance.

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5 Valuation of David Jones Limited

5.1 Summary

David Jones has been valued in the range $2,000-2,225 million which corresponds to a value of $3.73-4.14 per share. The valuation represents the estimated full underlying value of David Jones assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect David Jones shares to trade on the ASX in the absence of a takeover offer.

The value for David Jones is the aggregate of the estimated market value of David Jones' operating business and other assets less external borrowings and non-trading liabilities. The valuation is summarised below:

David Jones - Valuation Summary ($ millions)			
	Full Report Section Reference	Value Range	
		Low	High
Business operations	5.3	2,050	2,250
Air rights	5.5	50	75
Enterprise value		**2,100**	**2,325**
Net borrowings	5.6	(100)	(100)
Value of equity		**2,000**	**2,225**
Fully diluted shares on issue (millions)	4.6	536.8[26]	
Value per share		**$3.73**	**$4.14**

The value attributed to the business operations of $2,050-2,250 million is an overall judgement having regard to a number of valuation methodologies and parameters, including capitalisation of earnings or cash flows (multiples of EBITDA, EBIT and net profit after tax) and discounted cash flow ("DCF") analysis. For the purposes of the valuation, the business operations have been treated as a single integrated business (i.e. earnings from the financial services business have been included as part of the retail operations). Greater weight was placed on the multiples of earnings with the DCF used more in the nature of a cross check.

The earnings multiples implied by the valuation of David Jones' business operations and the value the equity of David Jones are summarised below:

[26] Includes 1.0 million shares to be issued under the LTIP if the Woolworths Offer is approved, rather than the 1.3 million shares that have been issued to, and held by, the David Jones Incentive Plan Trust on behalf of employees.

David Jones – Implied Valuation Parameters			
	Variable ($ million/cents)	Low	High
Multiple of EBITDA (times) – Business Operations			
FY13[27] (actual)	209.8[28]	9.8	10.7
FY14 (broker consensus)	201.9[28]	10.2	11.1
FY15 (broker consensus)	224.2[28]	9.1	10.0
Multiple of EBIT (times) – Business Operations			
FY13 (actual)	153.0[28]	13.4	14.7
FY14 (broker consensus)	139.4[28]	14.7	16.1
FY15 (broker consensus)	159.2[28]	12.9	14.1
PE Multiple (times)			
FY13 (actual)	104.4[29,30]	19.2	21.3
FY14 (broker consensus)	93.9[29]	21.3	23.7
FY15 (broker consensus)	107.2[29]	18.7	20.8

The valuation:

- allows for the value inherent in David Jones' ownership of the freehold of its four flagship store sites in the CBDs of Sydney and Melbourne including the potential value of air rights;
- allows for the significant seasonal variations in working capital requirements (and therefore net debt) across the year; and
- takes account of the potential for synergies that might be available to acquirers.

5.2 Methodology

5.2.1 Overview

The valuation of David Jones is appropriate for the acquisition of the company as a whole and, accordingly, incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in David Jones could be expected to trade on the sharemarket. Shares in a listed company normally trade at a discount of 15-25% to the underlying value of the company as a whole (but this discount does not always apply).

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

[27] FYXX means the financial year ending on or about 31 July 20XX (usually a 52 week period).

[28] Allowing for $4.0 million (before tax) in savings in public listed company costs.

[29] Allowing for $2.8 million (after tax) in savings in public listed company costs.

[30] Before significant and non-recurring items, being the $9.1 million (before tax) loss on inventory in relation to the transfer of the Electronics business to Dick Smith.

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Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

Nevertheless, valuations are generally based on either or both discounted cash flow or multiples of earnings and Grant Samuel has had regard to both methodologies in the valuation of David Jones.

5.2.2 Capitalisation of Earnings or Cash Flows

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer but are also used extensively in sharemarket analysis.

Where an ongoing business with relatively stable and predictable cash flows is being valued, Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point.

Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and

- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable to EBIT if depreciation or non-cash charges distort earnings, do not reflect ongoing capital expenditure patterns or make comparisons between companies difficult. On the other hand, EBIT can better adjust for differences in relative capital expenditure intensity.

In determining a value for David Jones' business, Grant Samuel has placed particular reliance on the EBITDA and EBIT multiples implied by the valuation range compared to the EBITDA and EBIT multiples derived from an analysis of comparable listed companies and transactions involving comparable businesses but has also considered price earnings multiples.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers it is necessary to infer the appropriate multiple from other evidence.

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The usual approach used by valuers is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. However, share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor.

In interpreting and evaluating such data it is necessary to recognise that:

- multiples based on listed company share prices do not include a premium for control and are therefore often (but not always) less than multiples that would apply to acquisitions of similar companies. However, while the premium paid to obtain control in takeovers is observable (typically in the range 20-35%) it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by sharemarket investors;

- acquisition multiples from comparable transactions are therefore usually seen as a better guide when valuing 100% of a business but the data tends to be less transparent and information on forecast earnings is often unavailable;

- the analysis will give a range of outcomes from which averages or medians can be determined but it is not appropriate to simply apply such measures to the company being valued. The most important part of valuation is to evaluate the attributes of the specific company being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it appropriately belongs;

- acquisition multiples are a product of the economic and other circumstances at the time of the transaction. However, each transaction will be the product of a unique combination of factors, including:
  - economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
  - strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
  - the company's own performance and growth trajectory;
  - rationalisation or synergy benefits available to the acquirer;
  - the structural and regulatory framework;
  - investment and sharemarket conditions at the time; and
  - the number of competing buyers;

- acquisitions and listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and ratings between countries, economic factors (economic growth, inflation, interest rates) and market structures (competition etc.) and the

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regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels;

- acquisition multiples are based on the target's earnings but the price paid normally reflects the fact that there were synergies available to the acquirer (at least if the acquirer is a "trade buyer" with existing businesses in the same or a related industry). If the target's earnings were adjusted for these synergies, the effective multiple paid by the acquirer would be lower than that calculated on the target's earnings; and

- while EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:

  - EBIT multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for average capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is often lumpy and depreciation expense may not be a reliable guide to the normalised level of capital expenditure. In addition, there can be differences between companies in the basis of calculation of depreciation; and

  - businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

5.2.3 Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, including resources, and for the valuation of start-up projects where earnings during the first few years can be negative but it is also widely used in the valuation of established industrial businesses. DCF valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture depleting resources, development projects and fixed terms contracts (which are typical in the resources sector), the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate which reflects the risk associated with the cash flow stream.

Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgement. In addition, even where cash flow forecasts are available, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are

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often not meaningful or reliable. Notwithstanding these limitations, DCF valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions as to expected future performance need to be made.

A financial model of the operating business has been developed by Grant Samuel. The model allows the key drivers of revenues, costs and capital expenditure to be modelled. The model is based on a large number of assumptions and is subject to significant uncertainty and contingencies, many of which are outside the control of David Jones. A number of different scenarios have been developed and analysed to reflect the impact on value of changes in various key assumptions. The financial model is discussed in more detail in Section 5.4.3 of this report.

However, it should be noted that no detailed forecasts have been prepared by David Jones beyond FY14 (the budget for FY15 has not been completed). Accordingly, the model is a "high level" model focussed on key parameters (e.g. total sales, overall gross margin) and is more in the nature of a cross check.

5.2.4 Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used as a "cross check" of the result determined by a capitalised earnings valuation or by discounting cash flows. While they are only used as a cross check in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value the business of David Jones. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

5.2.5 Net Assets/Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in David Jones' case.

5.3 Valuation Approach for David Jones

Grant Samuel's valuation of David Jones has been estimated by aggregating the estimated market value of its operating business together with the realisable value of non-trading assets and deducting external borrowings and non-trading liabilities. The value of the operating business has been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

In valuing the operating business, the primary focus was on earnings multiples analyses with the DCF used as a cross check. The value range selected is a judgement derived through an iterative process. The objective is to determine a value that is both consistent with the market evidence as to multiples and fits with the output of DCF analysis in terms of the various scenarios and their likelihood.

Specific aspects of the methodology adopted by Grant Samuel include the following:

- the department store operations and the financial services business have been valued as a single business. There are a number of reasons for adopting this approach:
  - the financial services business in not, in reality, a separate or standalone business. It is an integral part of the department store business and its relationship with its customers (David Jones owns all the customer information). It is highly unlikely that David Jones would sell it outright to another party;

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- the economic drivers are substantially the same in both businesses;
- there are no transactions for similar businesses (of which Grant Samuel is aware) that provide meaningful valuation parameters;
- a number of the retailers included in the comparable transactions and comparable listed companies also had or have financial services arms and these earnings are effectively included in their multiples; and
- there are no listed companies comparable to the financial services businesses. The nearest "peers" are arguably the major credit card businesses (e.g. American Express, Visa, Mastercard) but there are vast differences between these businesses and the David Jones financial services business not the least being scale, spread of activities and the nature of key revenue streams.

In any event, Grant Samuel's analysis suggests that the multiples implied by the valuation of the David Jones operating business (on a price earnings multiple basis) are not less than those applied to listed financial services enterprises (allowing for a control premium) or financial services transactions;

- the business has been valued assuming David Jones retains ownership of its flagship properties in Sydney and Melbourne. Grant Samuel has separately considered:
  - whether value could be created through a sale and leaseback of the properties (see Section 5.4); and
  - the value of the air rights above the stores (see Section 5.5); and
- synergies achievable by acquirers of David Jones have been considered but it needs to be recognised that:
  - normal valuation practice is to include a value for synergies that are common across multiple acquirers but to exclude those that are unique to a particular acquirer; and
  - where earnings multiples from comparable transactions are a primary reference point adding synergies to earnings would potentially double count them as the multiples from the other transactions are usually based on "standalone" earnings (either reported or forecast) and the value of synergies is therefore reflected in the multiple (i.e. the transaction multiple would be lower if based on earnings including synergy benefits).

5.4 Value of Business Operations

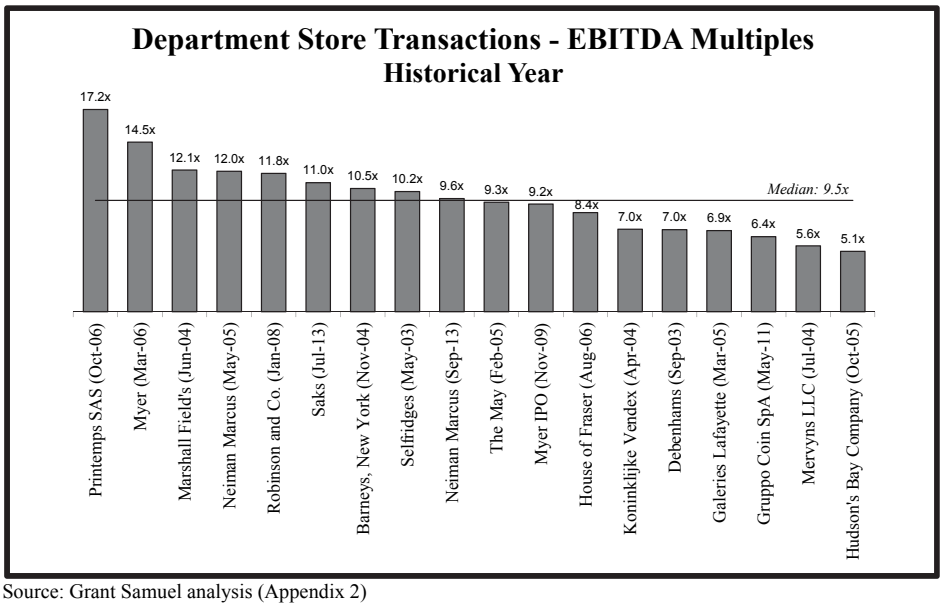
5.4.1 Summary

Grant Samuel estimates the value of David Jones' business operations to be in the range $2,050-2,250 million. This valuation is a subjective judgement having regard to both earnings multiple analysis and DCF analysis.

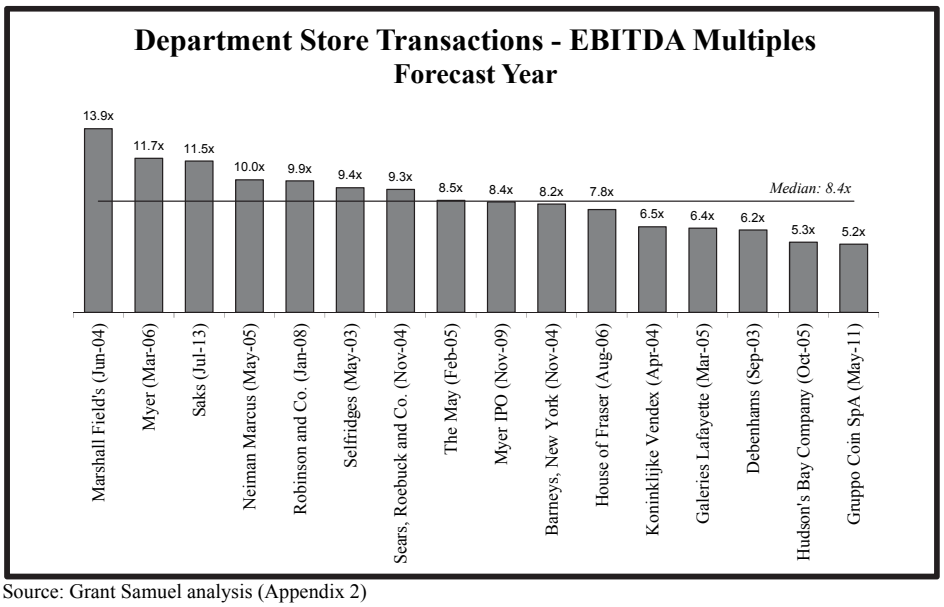
5.4.2 Earnings Multiple Analysis

Transaction Evidence

Appendix 2 contains an analysis of the earnings multiples implied by acquisitions of department store businesses globally over the past ten years. The following charts summarise the historical and forecast EBITDA multiples:



Source: Grant Samuel analysis (Appendix 2)



Source: Grant Samuel analysis (Appendix 2)

The analysis indicates median multiples of 9.5 times historical and 8.4 times forecast EBITDA. However, there is a wide range from around five times to more than 15 times reflecting the widely diverging individual circumstances including market position and operating performance.

The following factors are relevant to consideration of the transaction evidence:

- the two most recent transactions, the acquisition of The Neiman Marcus Group LTD Inc ("Neiman Marcus") in September 2013 and the acquisition of Saks Incorporated ("Saks") in July 2013 involve businesses that have similar market positioning to David Jones and are arguably the most comparable. The acquisition of Neiman Marcus took place at 9.6 times historical EBITDA, in line with the median. The multiple implied by the acquisition of Saks was higher at 11.0 times historical EBITDA (but arguably lower depending on how the multiple is calculated – see Appendix 2). The higher forecast multiple of 11.5 times for Saks reflected

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expectations of a fall in earnings due to increased expenditure on business development initiatives.

The Neiman Marcus transaction represented approximately 14 times EBIT. The Saks EBIT multiples were materially higher (around 20 times) because its lower margins meant that the depreciation charge represented a greater proportion of EBITDA.

Both businesses retained a substantial degree of ownership of key store sites;

- the very high multiples for the 2006 acquisition of Myer from Coles Group reflected that Myer was an underperforming business but with the expectation that there would be substantial cost savings potential under new ownership.

  The subsequent initial public offering ("IPO") of Myer in 2009 is another benchmark that is potentially relevant. There is no reason to believe that the then owners (a private equity fund and other investors) had any objective other than price maximisation and would have sold to a trade buyer if that had realised a higher price. Accordingly, it is arguable that the IPO price was at least equal to a "control value" at that time. The value parameters for the IPO (based on the final issue price of $4.10 per share) were as follows:

Myer IPO – Valuation Parameters		
	Historical	**Forecast**
Multiples of EBITDA (times)	9.2	8.4
Multiples of EBIT (times)	11.7	10.6

  At the time of the IPO, Myer had sold all of its freehold properties. The Myer share price fell by almost 10% on the first day of trading and has not yet traded above the IPO price;

- in a number of cases substantial synergies were anticipated by the acquirer:
  - Hudson's Bay Company identified C$100 million of synergies (relative to EBITDA of US$271 million) in its acquisition of Saks;
  - Federated Department Stores expected US$450 million of synergies in its acquisition of The May Department Stores ("May");
  - synergies of US$500 million were expected from the merger of Kmart and Sears, Roebuck and Company; and
  - May expected US$180 million of synergies (full run-rate) in its acquisition of Marshall Field's.

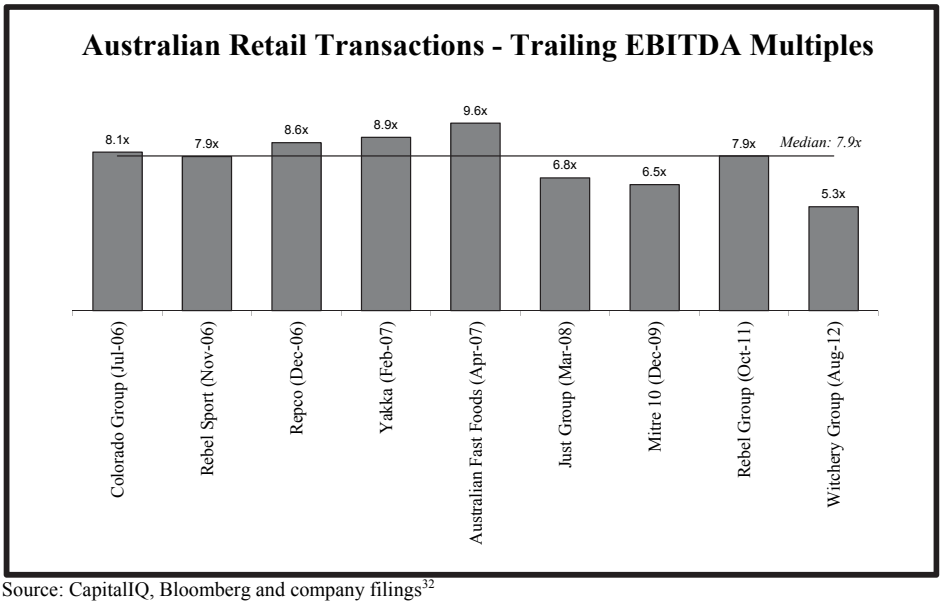
  The implied earnings multiples from these transactions after adjusting for expected synergies are set out below and indicate a fairly consistent level of 7-8 times EBITDA:

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Implied Transaction Multiples – Pre and Post Synergies				
	EBITDA Multiple (times)		EBIT Multiple (times)	
	Historical	Forecast	Historical	Forecast
Pre synergies				
Saks (Jul-13)	11.0	11.5	19.8	22.9
May (Feb-05)	9.3	8.5	14.1	11.9
Sears, Roebuck and Co. (Nov-04)	nmf	7.3	nmf	12.4
Marshall Field's (Jun-04)	12.1	13.9	21.9	na
Post synergies				
Saks (Jul-13)	8.0	8.3	11.9	12.9
May (Feb-05)	7.5	7.0	10.4	9.1
Sears, Roebuck and Co. (Nov-04)	nmf[31]	7.3	nmf	12.4
Marshall Field's (Jun-04)	7.2	7.8	9.8	na

- over time there is no discernable pattern in multiples, upwards or downwards. Most of the transactions took place well before the onset of the global financial crisis in late 2007 but, on balance, do not appear to have taken place at different multiples to those occurring subsequently;
- each of the target companies had varying degrees of property ownership and leasing of their store sites. It is not possible to accurately adjust these transactions to a comparable "pre rent" basis due to the lack of information; and
- the data set excludes transactions involving discount department stores and certain other situations not considered to result in meaningful multiples.

Grant Samuel has also considered the multiples implied by acquisitions of Australian specialty retailers over recent years. The multiples of EBITDA for the selected transactions are summarised below:



Source: CapitalIQ, Bloomberg and company filings[32]

[31] Not meaningful

[32] Some of the Australian retail transactions involve privately held businesses where data is less accessible and reliable than transactions involving public companies.

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The analysis indicates a fairly consistent pattern of around 8 times EBITDA. As the majority were acquisitions by private equity buyers there were limited synergies available. In this respect, the multiples are not dissimilar to the post synergy multiples for the department store transactions.

Overall, the analysis suggests that:

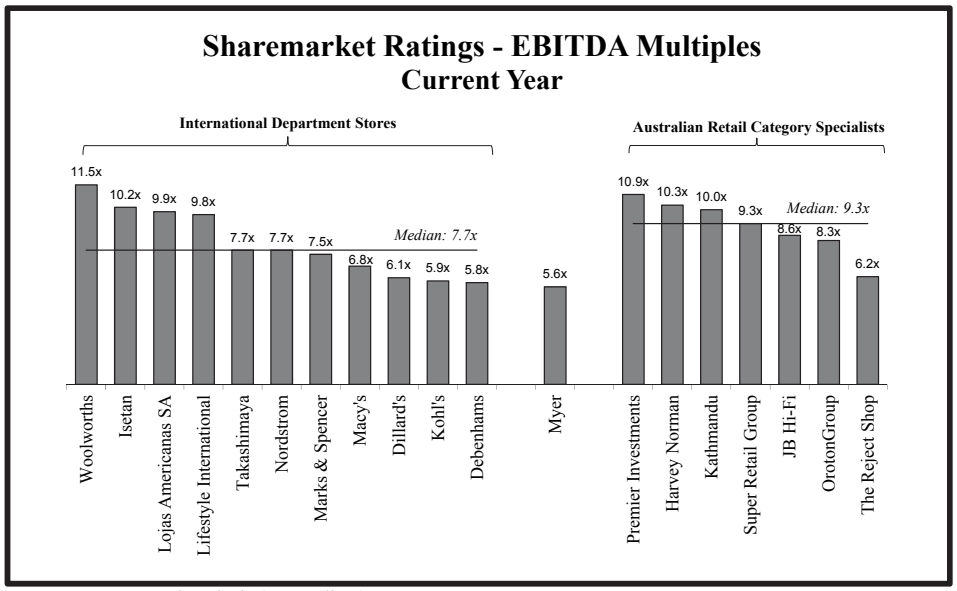
- acquisitions of department stores typically occur at around 8-12 times forecast (standalone) EBITDA. Most multiples of forecast (standalone) EBIT are in the range of 10-14 times although a number are materially higher; and
- where material synergies are expected, transactions have generally completed at around 7-8 times EBITDA and 9-12 times EBIT (on a post synergy basis including 100% of synergies).

Sharemarket Evidence

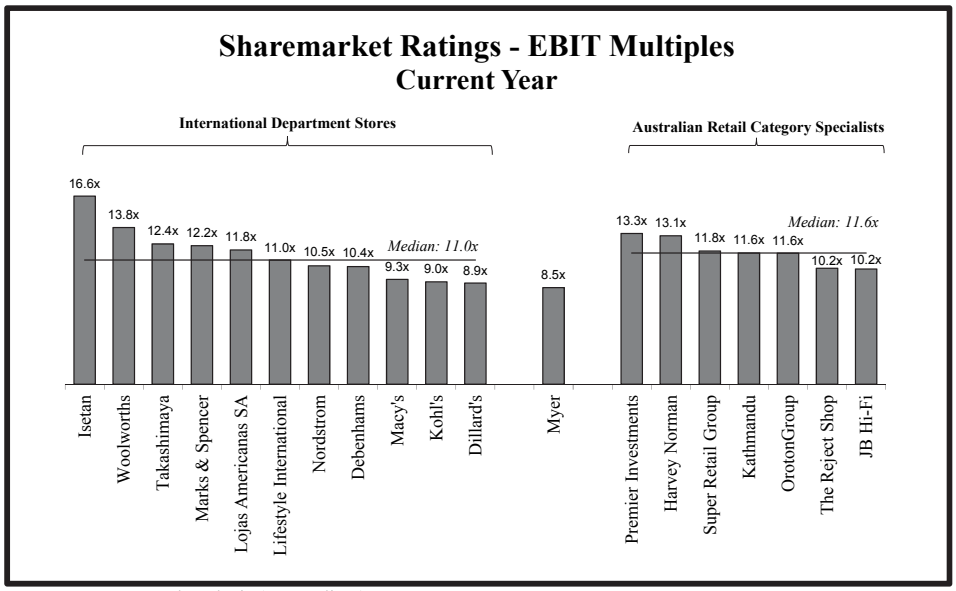
Appendix 3 contains analysis of the earnings multiples implied by the share prices as at 30 April 2014 for a selection of:

- international department store businesses; and
- Australian retail businesses primarily dependent on discretionary spending (i.e. excluding supermarket operators, etc.).

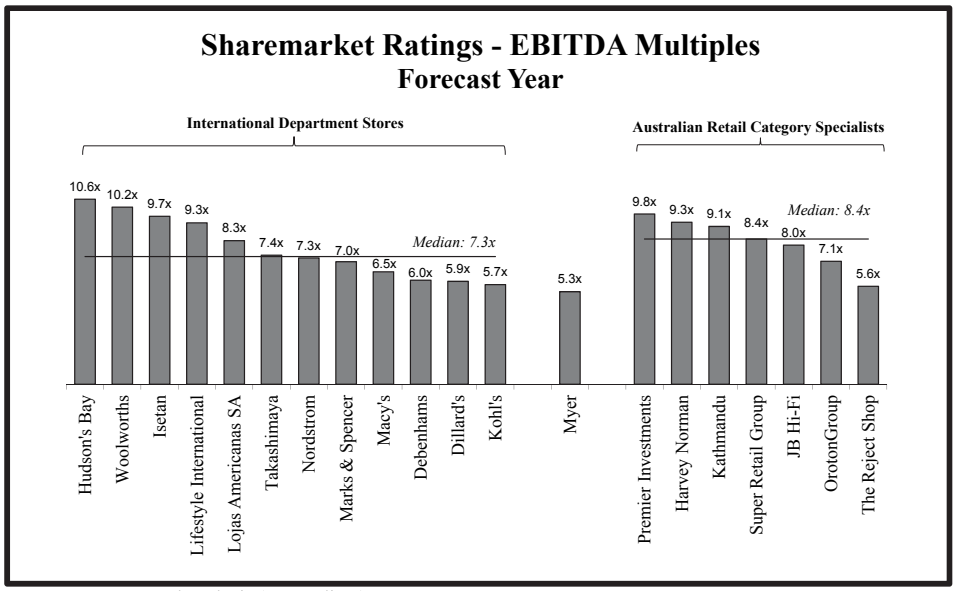
The following charts summarise the EBITDA and EBIT multiples for the current year (calendarised to July 2014) and the forecast year (calendarised to July 2015):



Source: Grant Samuel analysis (Appendix 3)

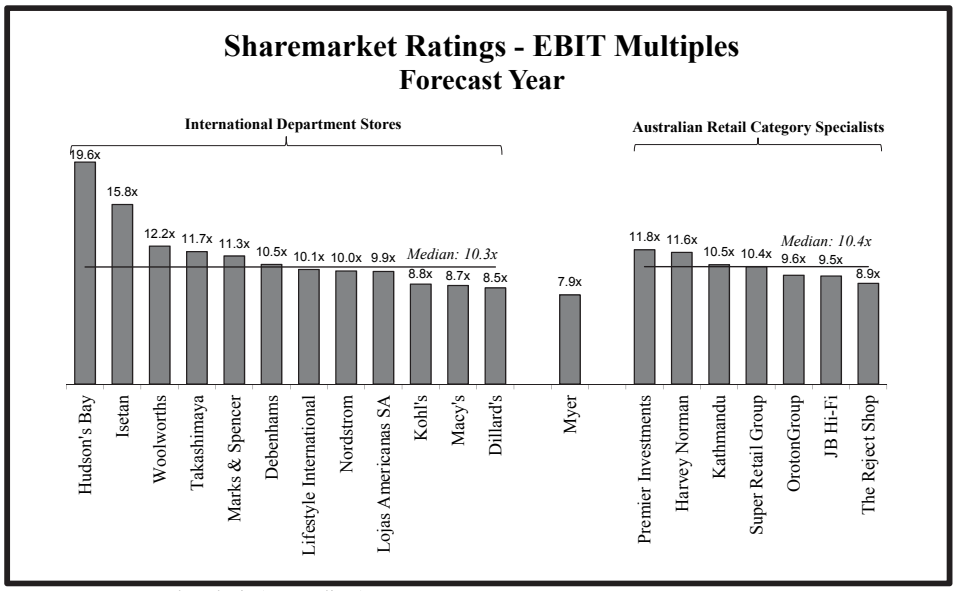


Source: Grant Samuel analysis (Appendix 3)



Source: Grant Samuel analysis (Appendix 3)

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Source: Grant Samuel analysis (Appendix 3)

The following factors are relevant to consideration of the sharemarket evidence:

- the multiples are based on share prices and do not include a premium for control;
- Australian discretionary retailers trade at higher multiples than international department stores on an EBITDA basis but not at an EBIT level indicating that the specialist retailers have a lower level of capital intensity (and therefore lower depreciation charges) than department stores as well as higher margins (excluding discount store retailers). This outcome suggests that EBIT multiples may be a better basis for analysis because it is able to compensate for these kinds of structural differences;
- the ratings of leading Australian retailers (apart from Myer) are relatively consistent. In contrast, the international department stores fall in a wider range reducing the reliability of the data but it nevertheless shows that:
  - the highest rated international department stores trade at around 10 times current year EBITDA and only trades above 10 times forecast EBITDA (the median is 7.3 times); and
  - forecast EBIT multiples for both categories are reasonably tightly bunched in the 10-12 range if the outliers are removed;
- Woolworths is one of the highest rated international department store businesses at more than 11 times current year EBITDA and almost 14 times current year EBIT. This premium rating reflects its strong earnings growth track record (following a successful transformation of the business) and a positive outlook;
- David Jones' own trading multiples (based on the closing price on 30 January 2014) straddled the median of international department stores but were below the top quartile;
- Myer is trading at multiples at the bottom end of international department store peers and well below other Australian retailers including David Jones (prior to the Woolworths Offer). This is largely attributable to its weak trading performance. Some commentators also attribute part of the low rating to the fact it does not own its key CBD stores and the inherent upward cost pressures from leases. The following table compares Myer's current rating with that of David Jones (based on the closing price on 30 January 2014):

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Comparative Ratings – Myer and David Jones		
	Myer	David Jones[33] (30 January 2014)
Multiples of EBITDA (times)		
FY14	5.6	8.3
FY15	5.3	7.5
Multiples of EBIT (times)		
FY14	8.5	12.1
FY15	7.9	10.6

- as with the transaction evidence, there will be a wide range of situations regarding property ownership, at least for the department store operators (the Australian retailers are virtually all on leasehold). However, it is not practical to put them all on a comparable "pre rent" basis because of the difficulty of determining a reliable capitalised value for the lease obligations (treated as operating leases).

Overall, the analysis suggests that retailers are generally trading at around 11-13 times current year EBIT and 10-12 times FY15 EBIT.

Conclusion and Comparison

Grant Samuel has valued David Jones' business operations at $2,050-2,250 million. David Jones has not provided any specific guidance in relation to earnings for FY14 or FY15 and the directors have decided not to include any forecasts in the Scheme Booklet. Accordingly, the multiples set out below are based on the median of brokers' forecasts for David Jones (see Appendix 1 for details). The consensus earnings have been adjusted by $4 million to reflect the savings in head office costs that would be available to any acquirer of David Jones (see Section 5.7). Based on these adjusted earnings, the value range represents the following multiples:

David Jones' Business Operations – Implied Valuation Parameters			
	Variable ($ millions)	Low	High
Value Range ($ millions)		**2,050**	**2,250**
Multiples of EBITDA (times)			
FY13 (actual)	209.8[28]	9.8	10.7
FY14 (broker consensus)	201.9[28]	10.2	11.1
FY15 (broker consensus)	224.2[28]	9.1	10.0
Multiples of EBIT (times)			
FY13 (actual)	153.0[28]	13.4	14.7
FY14 (broker consensus)	139.4[28]	14.7	16.1
FY15 (broker consensus)	159.2[28]	12.9	14.1

The multiples are at the high end of the comparable transactions. In particular:

- the FY14 EBITDA multiples of 10.2-11.1 times are well above the median of the transaction evidence of 8.4 times forecast EBITDA. They exceed Neiman Marcus (9.6 times historical EBITDA) but are slightly lower than Saks (around 11.0 times depending on the measurement basis); and
- the FY14 EBIT multiples of 14.7-16.1 times are above most transactions and exceed Neiman Marcus (13.7 times historical EBIT) although they are well below Saks.

The multiples are also materially above the multiples of listed retailers.

[33] Enterprise value calculated using an average level of net borrowings of $100 million (refer to Section 5.6).

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In Grant Samuel's opinion, they are appropriate for a business such as David Jones and reflect:

- the market positioning of David Jones and its deep presence in the Australian marketplace. The David Jones retail brand is one of the best known in Australia with a very clear brand identity;
- the progress made since 2012 in reshaping the business to deal with the key strategic challenges facing the business (online and new retail entrants). Like-for-like sales have turned around in recent quarters showing growth for the last three quarters[34];
- the potential for material improvement in revenue and earnings if there is a broader pick up in household spending in the medium term. In any event, in considering the FY14 multiples it should be noted that the broker consensus estimates show a 10% increase in EBITDA and a 15% increase in EBIT in FY15;
- David Jones' ownership of the freehold for its key CBD sites which:
  - helps lower operating leverage by reducing the level of fixed charges (compared to leasing these stores);
  - reduces its exposure to inflation based increases in fixed charges;
  - preserves its flexibility in operating the sites; and
  - provides exposure to increases in capital value over time (even if not reported as earnings or received in cash).

On the other hand:

- any view on multiples needs to be tempered by the fact that department store retailing is a tough business:
  - with a patchy record of sales growth;
  - facing intense competition from online and new entrants in the Australian retailing industry, particularly overseas apparel retailers as well as traditional competitors. Any sales growth will be "hard won". Industry forecasters project very modest sales growth over the next five years for department stores;
  - with many costs linked to inflation and limited ability to dramatically change major cost items (e.g. lease rentals and staff); and
  - requiring a continued relatively high level of capital expenditure over the next few years to remain competitive (e.g. through refurbishments and technology upgrades). David Jones plans to spend $70-80 million per annum over the next few years; and
- the implementation of the Future Strategic Direction Plan means there is less "low hanging fruit" for acquirers to take advantage of through quick and easy modifications to the business;

In addition, there are two further issues that potentially impact the value and the multiples and warrant careful consideration:

- synergies available to acquirers of David Jones. Myer anticipated synergies of $85 million per annum in connection with its merger proposal. Woolworths has flagged an expectation of increasing earnings by approximately $130 million per annum over the next five years. The issues relating to synergies and value are complex:
  - standard valuation practice is to only include value for synergies that are common to multiple acquirers and to exclude those that are unique to a particular buyer. In this context:

[34] Excluding the impact of the Canberra store refurbishment in the first quarter of FY14.

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- the earnings used in the table above ("David Jones' Business Operations – Implied Valuation Parameters") incorporate a saving of $4 million per annum in costs associated with being a public listing company;
- the types of synergies vary substantially between acquirers. For example, the $85 million identified by Myer primarily relate to operational cost savings (systems, duplicated locations, etc). In contrast, Woolworths expects its profit increases to come from factors such as the combined purchasing power, expansion of David Jones' private label, the introduction (or growth) of Woolworths' existing Australian brands in David Jones stores (it owns Country Road, Mimco and Witchery), the introduction of other Woolworths in house brands (as part of an overall increase in private label to 20-30% of sales), an improved customer relationship management system and loyalty program as well as the upgrade of online capabilities. Other potential international acquirers are likely to have a different set of opportunities, at least in part;
- the synergies available to Myer are unique to it. There are no other existing operators in Australia that could merge their back office operations with David Jones or eliminate duplicate stores;
- a number of the synergies identified by Woolworths are likely to be unique to it. For example, the targeted increase in private label sales to 20-30% (compared to David Jones' target of 10%) is dependent on Woolworths own design capabilities and supply chain efficiency. It is arguably the only department store chain with these capabilities in place, the necessary scale and aligned to southern hemisphere seasonal patterns enabling timely responses to market demand (although some other specialist retailers such as Zara have significant capabilities).

  Some of the identified initiatives (e.g. increased private label up to 10%, improved omni channel offering, better store productivity) are not materially different to David Jones' existing strategies that are in place to drive future sales growth (although execution capacity may be different). The $130 million profit increase (over five years) claimed by Woolworths is benchmarked to current earnings, not what they would otherwise be on a standalone basis at the same point in time. In addition, some of the earnings growth is expected from general improvements to the operations of David Jones. These elements are not strictly synergies as such.

  In any event, there are risks with some of these initiatives (even if Woolworths operates these strategies successfully in South Africa). Shifting David Jones' sales mix to 30% private label involves a material change in its merchandising strategy and market positioning. It is not certain that such a change would not damage customer perceptions and have adverse follow on consequences. The risks of this type of synergy contrast with the more straight forward operational cost savings.

  Similarly, some such as boosting online sales are unproven and dependent on successful execution of future initiatives;
- synergies available to other international department store acquirers are likely to be less than those available to Woolworths given that they:
  - are predominantly northern hemisphere based; and
  - have no existing operations in Australia; and

- where earnings multiples from comparable transactions are a primary reference point adding synergies to earnings has the potential to double count them as the multiples from other transactions are usually based on "standalone" earnings (either reported or forecast). Accordingly, the multiples reflect synergy potential and it would be incorrect to apply them to earnings that include synergies. The transaction

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analysis above shows that on a post-synergies basis (including 100% of the anticipated synergy benefits in earnings) the multiples are reasonably consistently in the range 7-8 times EBITDA and 9-12 time EBIT. Assuming post synergies EBITDA multiple of, say, 8.0 times for David Jones, the valuation of $2,050-2,250 effectively allows for over $60 million per annum of synergy benefits.

In Grant Samuel's opinion, the value attributed to the business operations of David Jones of $2,050-2,250 million incorporates a reasonable share of the value for synergies that might be expected to be "paid away" by bidders in a competitive process; and

- whether the value of David Jones' business operations would be enhanced through structuring some kind of sale and leaseback of its freehold properties[35]. In Grant Samuel's opinion, there would be no material additional value created through such potential transactions.

  The expectation of value creation typically arises because assets can be sold at an effective multiple greater than the multiple at which the company currently trades so the loss of value from increased rental expense is less than the value received.

  In this case, the yields on high quality retail properties are generally in the order of 6.0-6.5%, equivalent to multiples of 15.4-16.7 times net rental income. As the valuation of the operating business represents 14.7-16.1 times FY14 EBIT there is no value arbitrage. Arguably, there may be potential for arbitrage in the context of normal sharemarket trading in the absence of an offer (David Jones was trading at an EBIT multiple of 9.9-11.4 times based on share prices at 30 January 2014). However, even on this basis, the achievability of any value arbitrage is open to question:

  - sale and leaseback is strategically unattractive in view of the flagship nature of the David Jones properties. There would be:
    - loss of flexibility and freedom to operate and remodel the stores in whatever form management deemed appropriate (subject to planning restrictions). Any significant changes would involve dealings with the landlord (and this would become even more complicated if the air rights had been developed and there were other owners of property above the store). This could be a significant drawback as these stores are central to underpinning David Jones' brand perception (suburban locations would be of far less importance but these are, in any event, all leased); and
    - limited rights to reacquire the property. To the extent David Jones required options to repurchase or first and last rights of refusal, there would be an adverse impact on the price able to be realised;
  - there would likely be a negative adverse impact on the overall rating of the company in view of the:
    - operational disadvantages outlined above;
    - significant increase in fixed charges relative to earnings (i.e. operating leverage);
    - locked in nature of cost increases on rental property;
    - loss of exposure to long run capital gain; and
    - such a loss of value could easily offset any apparent gain;
  - David Jones would be likely to incur a material gains tax liability on sale. The cost base of the properties is around $400 million (and possibly less).

[35] The alternative construction of this issue is that the sale of the real estate would lower the effective acquisition multiple.

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5.4.3 Discounted Cash Flow Analysis

No detailed projections are available for David Jones. Nevertheless, Grant Samuel has used DCF analysis as a cross check of the capitalisation of earnings based valuation. In order to do so, Grant Samuel has developed a high level DCF model which allows the key drivers of earnings and capital expenditure to be modelled. The DCF model is based on a number of assumptions that Grant Samuel considers reasonable. However, the model does not constitute a forecast or projection by Grant Samuel of the future performance for David Jones and no assurance or warranty is given that future performance will be consistent with the assumptions adopted in the model.

The DCF model forecasts nominal ungeared after tax cash flows from 26 January 2014 to 27 July 2024, a period of ten and a half years, with a terminal value calculated at 27 July 2024 by capitalising net after tax cash flows using a perpetual growth assumption. The cash flows are at a rate representing a weighted average cost of capital ("WACC"). A corporate tax rate of 30% has been assumed.

(i) Discount Rate

For the purposes of the analysis, Grant Samuel has utilised a discount rate in the range 10-11%. The determination of appropriate discount rates for the analysis is difficult:

- the cost of equity capital is not a precise or provable number nor can it be estimated with any degree of reliability. The cost of equity capital is not directly observable and models such as the Capital Asset Pricing Model ("CAPM") do no more than infer it from other data using one particular theory about the way in which security prices behave. Any estimate therefore depends on the efficacy of the theory and the robustness of the data but the available tools such as CAPM involve:
  - models which have limited empirical validity (and competing formulation);
  - simplifying assumptions;
  - the use of historical data as proxy for estimates of forward looking parameters;
  - data of dubious statistical reliability; and
  - unresolved issues.

  It is easy to over-engineer the process and to credit the output of models with a precision it does not warrant. The reality is that any cost of capital estimate or model output should be treated as a broad guide rather than an absolute truth. The cost of capital is fundamentally a matter of judgement, not merely a calculation; and
- strict application of the CAPM at the present time gives results that are arguably unrealistically low (primarily because of very low government bond rates) and are often inconsistent with other measures.

  Use of the CAPM[36] based on current parameters would result in a cost of equity in the range 10.6-11.2% calculated as follows:
  - a risk free rate of 4.0% based on the 10 year Commonwealth Government bond rate as at 30 April 2014;
  - a market risk premium of 6%, which is similar to that used by a wide variety of analysts and practitioners (typically in the range 5-7%); and
  - an equity beta factor in the range 1.1-1.2, based on betas for international up market department stores.

[36] The formula for deriving the cost of equity using CAPM is $Re = Rf + Beta\ (Rm - Rf)$, where Re = the cost of equity capital, Rf = the risk free rate and Rm-Rf = the market risk premium.

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The resultant WACC[37] calculation is 9.3-10.4% assuming:

- David Jones's cost of debt of 6.0% based on a 2.0% premium over the risk free rate. This margin takes into account the margin David Jones pays on its current facilities (over interbank rates), establishment costs and the spread between interbank rates and government securities of equal tenor; and
- a debt/equity mix of 15-20% debt and 80-85% equity, based in part on gearing for international up market department stores. Based on David Jones pre offer market capitalisation this assumption represents debt of approximately $250-300 million. While this exceeds David Jones' current level of debt and is not a level targeted by David Jones it is not unreasonable if starting with a "clean sheet of paper".

In Grant Samuel's opinion, these calculations are likely to understate the true cost of capital. In this context:

- anecdotal information suggests that equity investors have repriced risk since the global financial crisis in 2007 and that acquirers are pricing offers on the basis of hurdle rates above those implied by theoretical models. However, this has yet to be translated into the measures of market risk premium (at least those based on longer term historical data). In this regard, an increase in the market risk premium of 1% (i.e. from 6% to 7%) would increase the calculated WACC range to 10.2-11.4%; and
- global interest rates, including long term bond rates, are at low levels by comparison with historical norms reflecting the liquidity still being pumped into many advanced economies to stimulate economic activity. Effective real interest rates are now extremely low. Grant Samuel does not believe this position is sustainable and the risk is clearly towards a rise in bond yields. Conceptually, the interest rates used to calculate the discount rate should recognise this expectation (i.e. they should be forecast for each future period) but for practical ease market practice is that a single average rate based on the long term bond rate is generally adopted for valuation purposes. Some academics/valuation practitioners consider it to be inappropriate to add a "normal" market risk premium (e.g. 6%) to a temporarily depressed bond yield and therefore advocate that a "normalised" risk free rate should be used. On this basis, an increase in the risk free rate to (say) 5% would increase the calculated WACC range to 10.3-11.4%.

In certain situations, other approaches such as the Gordon Growth Model ("GGM") provide more useful measures of the cost of equity. The GGM postulates that the cost of equity is equal to the current (strictly one year forecast) distribution or dividend yield plus the long term growth rate (it is essentially a restatement of the perpetuity formula). This method is appropriate where assets generate stable cash flows with steady long term growth rates (such as property assets).

Analysis of research reports on David Jones indicates that brokers are currently adopting WACCs in the range 9-11.5% with a median of 10.4%.

On the basis of the above, Grant Samuel has adopted a discount rate in the range 10-11% for the valuation of David Jones' business operations.

[37] The formula used to calculate a WACC under a classical tax system is $WACC = (Re \times E/V) + (Rd \times (1-t) \times D/V)$, where E/V = the proportion of equity to total value (where V = D + E), D/V = the proportion of debt to total value, Re = the cost of equity capital, Rd = the cost of debt capital and t = the corporate tax rate.

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(ii) DCF Assumptions

The valuation adopts as a starting date 25 January 2014, being the end of the first half of FY14. EBITDA for the second half of FY14 is calculated by subtracting actual EBITDA for the first half of 2014 from the broker consensus EBITDA for FY14.

The DCF analysis considers a number of different scenarios. Scenario A assumes the implementation of the Future Strategic Direction Plan set out in Section 4.2.2 of the Report. It assumes that from FY15 onwards:

Existing Department Stores

- David Jones' "like-for-like" sales (including online) increase by an average of 2.5% per annum (in nominal terms). This growth is above that assumed by Deloitte Access Economics for FY14-18[38] of 1.7% (refer to Section 3.2 of the Report), however, it takes into consideration the following:
  - David Jones' price harmonisation process is complete and it has removed the impact of price deflation of electronics by entering into the Dick Smith agreement;
  - David Jones' "like-for-like" sales performance over the last three quarters is substantially greater than that assumed by Deloitte Access Economics for FY14[38] (nil);
  - the assumed growth implies no real revenue growth (assuming inflation of 2.5%); and
  - it implies a continued decline in David Jones' share of non-food retail expenditure (based on Deloitte Access Economics' forecast average growth in non-food retail expenditure over this period of 3.4%).

  Given the uncertainty in forecasts for department store sector revenues (and the variation in forecasts) a constant rate of growth has been assumed;
- gross margin increases gradually from 38.5% in FY14 to 40.0% in FY17 (consistent with the target set out in the strategic plan), then remains flat. This improvement reflects the exit from low productivity categories, an increase in higher margin private label (up to 10% in FY17), further shifts in category mix towards higher margin fashion and beauty categories and technological improvements. It assumes there is no further structural shift to concession agreements;
- fixed and variable costs each represent 50% of FY14 operating expenses (excluding depreciation) i.e. $283 million;
- fixed operating expenses increase by 0.7% in FY15 and 0.8% in FY16, then increase by 2.5% thereafter. This assumes that a further $5 million additional cost savings are achieved in each of FY15 and FY16 (of the announced $30 million cost savings) and that David Jones continues to manage operating expenses such that fixed operating expenses increase at the same rate as "like-for-like" sales growth;
- the variable component of operating expenses (including advertising, marketing and visual merchandising and salaries) remains at a constant percentage of sales throughout the forecast period;

New Department Stores

- new stores replace underperforming stores such that the aggregate number of stores remaining reasonably stable;

[38] 30 June year end.

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- four new full scale stores are opened including Macquarie Centre (New South Wales) in February 2015, Pacific Square (New South Wales) and Eastland (Victoria) in FY17 and Sunshine Plaza (Queensland) in FY18. FY15 also reflects a full year of earnings from the Indooroopilly (Queensland) store which was opened in May 2014. No additional new stores are opened beyond those identified;
- three new "village format" stores are opened, one every two years from FY15);
- new full scale stores and "village format" stores generate EBIT at David Jones targeted levels, increasing by "like-for-like" sales growth (2.5%);
- there is no EBIT impact of closing underperforming stores (which have low margins) on the basis that a significant portion of sales are retained through purchases online or at nearby stores;

Financial Services

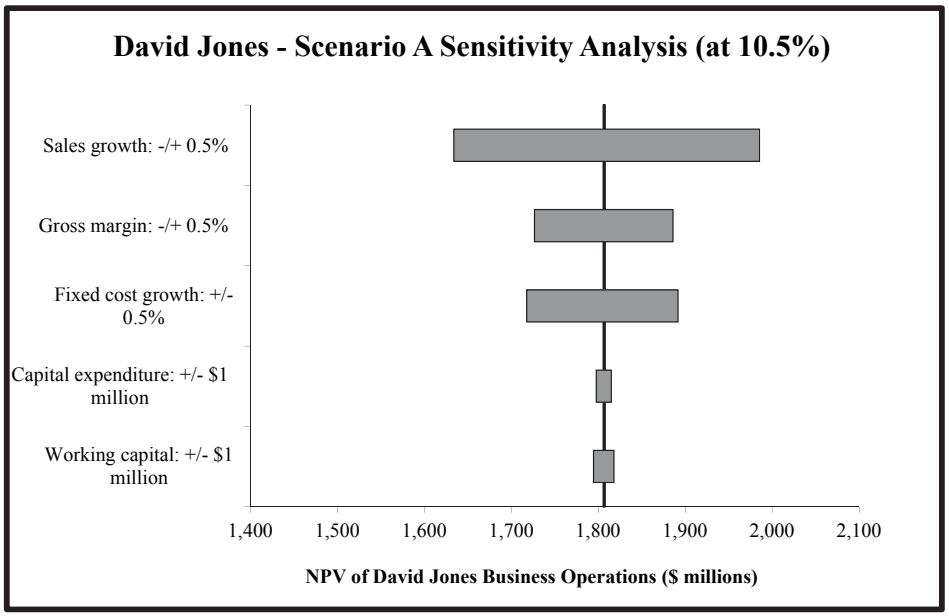
- financial services EBIT increases from $23.2 million in FY14 (reflecting a full year of profit sharing arrangements with American Express) in line with "like-for-like" sales growth;

Other Assumptions

- capital expenditure remains at $80 million (nominal) throughout the implementation of the strategic plan (FY14-FY18) and includes a total of $44 million expenditure for four new full scale stores and a total of $15 million expenditure for the three new "village format" stores. From FY19, capital expenditure declines to $65 million, then increases by inflation;
- tax depreciation increases from $58 million in FY14 to $74 million in FY24;
- strategic initiatives result in further reductions in inventory over the next 18 months after which inventory turnover remains flat. Inventory turnover increases from 4.3 in FY13 to 5.0 in FY15, similar to turnover achieved by David Jones in FY08 to FY10 (4.7-4.8 times) and still below turnover ratios for many international peers (e.g. Nordstrom, Debenhams);
- a corporate tax rate of 30% based on the statutory tax rate;
- approximately $4 million of public company costs are saved, increasing by inflation;
- general inflation of 2.5% per annum; and
- a terminal growth rate of 2.5% assuming inflationary growth only (no real growth).

The net present value ("NPV") of Scenario A is $1,806 million at a 10.5% discount rate. Grant Samuel has analysed Scenario A to examine the sensitivity of the NPV to changes in the following variables:

- "like-for-like" sales growth: -/+ 0.5% in all years (i.e. growth is 2.0% or 3.0%);
- gross margin: -/+ 0.5% in FY17 and beyond (i.e. gross margin gradually increases to 39.5% or 40.5% in FY17 then remains flat);
- growth in fixed operating expenses: +/- 0.5% in all years (i.e. growth is 3.0% or 2.0%);
- capital expenditure: +/- $1 million in all years; and
- working capital: +/- $1 million in all years.



These sensitivities do not, and do not purport to, represent the range of potential value outcomes for David Jones' business operations. They are simply theoretical indicators of the sensitivity of the net present values derived from the DCF analysis. In this regard, the net present value ("NPV") outcomes show a relatively wide range across the different scenarios, highlighting the sensitivity to relatively small changes in assumptions. In particular:

- the NPV of Scenario A is very sensitive to existing department store sales growth;
- NPV outcomes are also reasonably sensitive to fixed cost growth and gross margin; and
- NPV is not particularly sensitive to capital expenditure or working capital assumptions.

However, the sensitivity analysis does not take into account the operational flexibility that management has to react to changes in markets in which David Jones operates. For example, to offset a decline in sales it may further reduce operating expenses or undertake further initiatives to increase gross margin (e.g. by increasing the share of private label above that anticipated in the strategic plan (10%)).

As with any long term projections, there are inherent uncertainties about future events and outcomes and, as shown above, small changes in certain assumptions (in particular, sales) can have disproportionate impacts on the calculated values. The DCF model is, at least implicitly, based on a large number of assumptions which are subject to significant uncertainty, many of which are outside the control of David Jones:

- macroeconomic conditions (e.g. foreign exchange rates, economic growth, unemployment, interest rates, consumer spending and the level of household savings) and in particular, consumer confidence and wealth effects (which are influenced by property and sharemarket prices);
- further potential structural changes in the retail sector and David Jones' ability to position itself successfully;
- the level of competition in the retail sector (online retailers, category specialists or other department stores) as a result of actions of competitors and new entrants;
- ability of marketing campaigns to increase foot traffic and conversion to sales;

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- consumer preferences (e.g. demand for private label);
- relationships with brand owners, designers or concession operators and resulting impact on ability to stock key brands;
- pricing actions of suppliers;
- utilities costs and labour costs (particularly following the expiration of the Enterprise Bargaining Agreement for front line employees in FY15);
- demographic growth in certain regions, project delays or cost overruns which may impact the ability to open new stores on schedule, capital expenditure requirements and/or profitability of new stores; and
- the impact of other factors (e.g. weather) on seasonal demand and inventory levels.

As a result of these uncertainties, there is a wide range of potential outcomes that could occur, both positive and negative (and an even greater number of possible combinations of those outcomes). Most of these risks impact demand for David Jones' products, which would likely be reflected as either higher or lower sales volumes or higher or lower prices than anticipated including:

- sustained weak or strong economic conditions result in lower or higher non-food retail sales than anticipated;
- structural changes in the retail sector are greater or less than anticipated (and David Jones is not able to keep pace with changes);
- there is more or less competition than anticipated (e.g. from a new entrant) such that David Jones loses or gains market share;
- marketing campaigns are more or less successful than anticipated;

Other potential outcomes include:

- future initiatives undertaken to improve gross margins are more or less effective than anticipated (e.g. demand for private label is lower than anticipated);
- weaker regional demographic conditions than anticipated or project delays result in certain new stores not being opened, a delay in the opening of certain stores or higher or lower profitability than anticipated;
- utilities costs or wages (particularly after FY15) increase at higher or lower rates than expected;
- capital expenditure requirements for new store fitouts or for continued process improvement are greater or less than anticipated; and
- an unexpected decline in sales volume results in an increase in aged inventory.

Accordingly, Grant Samuel has analysed a number of alternative scenarios, both positive and negative, principally around sales growth. As noted above, NPV outcomes are not particularly sensitive to changes in capital expenditure or working capital and, therefore, no scenarios have been run exclusively in relation to these.

Each scenario assumes as a starting point that Scenario A is achieved (i.e. all initiatives set out in the Future Strategic Direction Plan are implemented and result in the anticipated targets being achieved). A description of each scenario is outlined in the table below.

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David Jones - DCF Scenarios	
Scenario	**Description**
Scenario A	Future Strategic Direction Plan is fully implemented and achieves its objectives (e.g. gross margin increases to 40%, cost savings are achieved, new full scale and "village format" stores are opened). "Like-for-like" sales growth, fixed operating expense growth and terminal growth rate are 2.5%.
Scenario B	Scenario A except that gross margin only increases to 39.0% by FY17 (rather than 40%).
Scenario C	Scenario A except that fixed costs increase by 3.5% per annum (rather than 2.5%).
Scenario D	Scenario A except that three new full scale stores (Sunshine Plaza, Eastland and Pacific Fair) are not opened. Capital expenditure for these stores is excluded.
Scenario E	Scenario A except that no new "village format" stores are opened. Capital expenditure for these stores is excluded.
Scenario F	Scenario A except that "like-for-like" sales growth is 4.0% per annum, fixed cost growth is 3.5% per annum and terminal growth rate is 4.0%.
Scenario G	Scenario A except that "like-for-like" sales growth is 1.0%, fixed cost growth is 2.5% and terminal growth rate is nil.
Scenario H	Scenario A except that David Jones enters into a sale and leaseback of its freehold properties at a yield in the range 6-6.5%. Rental expense for these stores is $40 million in FY14, increasing by assumed fixed cost growth (2.5%).

The output of the DCF analysis is summarised below:

David Jones – NPV Analysis ($ millions)					
Scenario	**Discount Rate**				
	11.5%	**11.0%**	**10.5%**	**10.0%**	**9.5%**
Scenario A	1,595.0	1,694.4	1,806.3	1,933.2	2,078.4
Scenario B	1,454.7	1,545.1	1,647.0	1,762.5	1,894.7
Scenario C	1,439.9	1,527.3	1,625.5	1,736.9	1,864.2
Scenario D	1,510.0	1,602.7	1,707.0	1,825.4	1,960.7
Scenario E	1,564.6	1,661.3	1,770.2	1,893.6	2,034.9
Scenario F	2,122.6	2,284.0	2,470.4	2,688.2	2,945.9
Scenario G	1,054.2	1,103.7	1,157.8	1,217.3	1,283.1
Scenario H	1,841.5	1,944.9	2,060.2	2,189.9	2,336.7

As discussed above, net present values from DCF analyses are subject to significant limitations and should always be treated with considerable caution. The following factors are relevant to consideration of the NPV outcomes:

- Scenario A assumes that the strategic plan is fully implemented and achieves its objectives (e.g. gross margin increases to 40%, cost savings are achieved, new full scale and "village format" stores are opened on schedule and achieve the anticipated EBIT contribution). Although David Jones has made substantial progress towards implementing the plan, there are risks that it will not achieve all of these objectives:
  - Scenario B assumes that gross margin increases only to 39% by FY17. However, Grant Samuel notes that David Jones has achieved a gross margin at close to 40% in prior years (e.g. 39.7% in FY10) and the targeted gross margin is still below that of Myer (41.7%) which has around 20% of sales as private label;
  - Scenario C reflects the impact of higher fixed cost growth (say, 3.5%) assuming David Jones is not able to manage costs on an ongoing basis to ensure that fixed operating expenses grow in line with "like-for-like" revenue growth; and
  - Scenario D assumes three of the new full scale stores are not opened and Scenario E assumes no further "village format" stores are opened. NPV

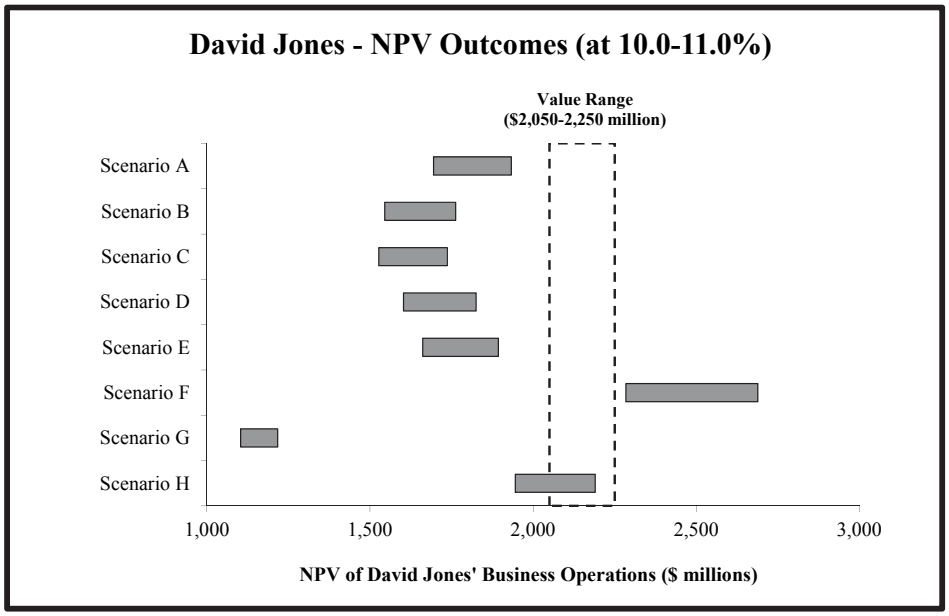
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outcomes are not particularly sensitive to these new store openings. Furthermore, David Jones believes that the risk that certain of the new stores are not opened is low; and

Each of these scenarios results in moderately lower values;

- as outlined above, there is a wide range of factors that could result in higher or lower sales growth and NPV is highly sensitive to this assumption. If, say, "like-for-like" sales increased by 4.0% per annum (and management was less focused on managing fixed costs such that fixed costs increased by 3.5% per annum) (Scenario F), the NPV outcomes are significantly higher. On the other hand, if "like-for-like" sales increased by only 1% per annum (and assuming fixed cost growth could not be reduced below inflation) (Scenario G), the NPV outcomes are substantially lower. In the absence of ongoing strategic initiatives (e.g. refurbishments, new store openings) any scenario which reflects higher fixed cost growth than "like-for-like" revenue growth is unsustainable over the long term; and
- Scenario H incorporates a sale and leaseback of its freehold properties with the sale proceeds calculated based on assumed rent of $40 million and a yield in the range 6-6.5%. Rental expense (tax effected) in relation to these properties has been deducted from the cash flows. This scenario results in substantial increase in NPV. However, the arrangement results in significantly higher operating leverage (and lower coverage of fixed charges) and therefore a higher beta and discount rate are appropriate. Applying a discount rate in the range 11-12% reduces NPV to $1,792-1,996 million (relatively consistent with Scenario A). Capital gains tax has not been assumed on the grounds that an acquirer should not incur it as it will be able to allocate the total purchase price.

The NPV outcomes are depicted diagrammatically below:



The majority of the cases fall below the value range for the business operations of $2,050-2,250 million. This is not surprising as the DCF represents a standalone value for David Jones under the current ownership structure and, it is Grant Samuel's view, that the Woolworths Offer of $4.00 includes an element of payment for some of the synergies that Woolworths anticipates generating.

In any event, it should be noted that:

- the standalone DCF value falls in the range if lower discount rates of, say, 9-10% was used;
- the standalone DCF value falls in the range if a sale and leaseback transaction occurs although it does not if the discount rate is increased by 1% to reflect the increased risk profile; and
- the DCF value exceeds the value range if a more positive view of, say, 4% long term sales growth is assumed. Some acquirers may believe that they are able to "ramp up" the business to this level.

Similarly, an increase in gross margins above David Jones' target of 40% (e.g. as a result of increased private label sales) would also lift the NPV materially.

5.5 Value of Air Rights Development Potential

David Jones ownership of its four flagship properties in the Sydney and Melbourne CBDs offers the opportunity to create value through developing multilevel buildings above each of these stores. As discussed in Section 4.6, David Jones has been actively investigating this possibility since 2012. Its preliminary analysis was that development above either of the two Melbourne stores was less economically viable under current planning regulations. Accordingly, the potential lies with the two Sydney stores (Elizabeth Street and Market Street).

However, given the early stage of the project, it is not possible to determine a present value for the air rights for these sites with any degree of precision or reliability:

- design work has only been undertaken at a conceptual level. No decisions have even been taken as to the choice and/or mix between residential, hotel and office space;
- construction at both sites, but particularly Market Street, is complicated, with issues around heritage, access, building strengthening and impact on trading. Costs are subject to considerable uncertainty;
- there is no planning approval for any development. Sydney City Council has indicated that it is broadly supportive of David Jones preliminary development application in relation to the Market Street site. This involved only a concept plan and the council's response was subject to a significant level of caveats. No approach to the Sydney City Council has been made in relation to the Elizabeth Street site;
- no detailed financial feasibilities have been prepared. David Jones management did undertake some high level financial analysis (based on sales prices per square metre for broad categories) at the outset in 2012 but even this has not been subjected to full update;
- the process of seeking expressions of interest from potential developers has been suspended and did not even get to the point of issuing an information memorandum so there are no indications of value or terms from the market. David Jones did have some earlier discussions with selected developers but this did not progress beyond general levels of interest; and
- there are few if any useful precedents particularly given the impact of individual circumstances on value. The closest benchmark is the recent agreement between the Tattersalls Club ("Tattersalls") and Mirvac Group to redevelop the Tattersalls site that is adjacent to David Jones' Market Street property. However, the terms of that agreement are confidential, and reportedly, it involves a number of elements some of which are difficult to calculate a value for (e.g. hotel management rights).

Based on David Jones' preliminary analysis there are potentially significant development profits across both Sydney sites. However, in assessing the present value to David Jones it is necessary to adjust the development profit to allow for:

- **risk sharing:** David Jones management does not anticipate undertaking such a development on its own and would involve an experienced developer, probably on a joint venture basis. This would mean sharing the profit. Alternatively, in an outright sale of the rights it is highly unlikely that a developer would "pay away" (to the vendor) the full extent of any

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development profit. The developer would need to retain a sufficient profit potential to justify the development risk;

- **tax:** David Jones would be subject to corporate tax on any development profits earned after making allowance for the allocation of a portion of the cost base of the property to the airspace; and
- **time and uncertainty:** while David Jones could monetise the opportunity at any stage, completion of any development is several years away and many risks are, at this point in time, unresolved (e.g. technical feasibility, planning approval, construction risk, size of trading losses during construction) and this impacts on the value today.

Grant Samuel has adopted a present value (attributable to David Jones and net of these factors) for the air rights of $50-75 million for the purposes of this report, having regard to the David Jones preliminary analysis as well as the factors outlined above. It must be recognised that this is a high level judgement rather than a scientifically derived estimate. Arguably, this value may be on the optimistic side. In fact, it is quite possible that the air rights may never be developed (e.g. if construction issues prove too complex or the impact on trading results is too great). However, given the nature of the test for fairness (and Grant Samuel's conclusion) it is better to err in this direction in order to ensure the robustness of the conclusion.

Consideration was also given to the potential for the Tattersalls and David Jones projects to be combined (given the contiguous nature of the sites). Such a combination would be expected to improve the economics of development for all parties. David Jones has, on a number of occasions, had discussions with Tattersalls about combining the sites and discussions are continuing intermittently. However, at this point in time there is no indication that a combination of the sites is likely to occur.

In any event, it should be noted that:

- the value of the air rights is not material in the context of the overall value of David Jones (less than 3.5%); and
- the air rights would have to be worth approximately $200 million (net of tax and risk sharing) before the bottom of the value range (with all other items held constant) exceeded the Woolworths Offer of $4.00 per share.

5.6 Net Borrowings

For valuation purposes, a net borrowings level of $100 million has been used which compares to David Jones reported net borrowings of:

- $86.5 million at 27 July 2013; and
- $(0.7) million at 25 January 2014 (i.e. net cash).

David Jones is a highly seasonal business with net working capital requirements (and therefore net borrowings) fluctuating materially across the year with a peak during the pre-Christmas period (primarily due to increased inventory).

The deduction for borrowings needs to reflect this seasonality rather than just a particular point in time which may or may not be representative. For example, while there was essentially nil debt at 27 January 2014, David Jones expects to incur net debt service costs (including line fees) of approximately $7 million during FY14. The normal approach where businesses have highly seasonal working capital requirements is to adopt a level of borrowings in line with the average across the year. In practice, measuring these averages is complicated as it can be impacted, for example, by:

- structural changes in inventory or other working capital items. In this context, David Jones has reduced its base inventory levels since the previous year including (but not limited to) the impact of the Dick Smith RBMA; and
- capital expenditure patterns. David Jones incurred capital expenditure of only $7 million in the first half of FY14 (albeit net of receiving approximately $20 million of landlord fit out rebates) compared to its normal annual expenditure of around $70-80 million.

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Grant Samuel has adopted the level of $100 million having regard to:

- David Jones' monthly net working capital balances and net borrowings for the past 12 months;
- the forecast capital expenditure over the period to the end of FY14;
- the payment of the interim dividend ($54 million in May 2014);
- the forecast interest expense for FY14; and
- discussions with management.

As an average level of debt has been assumed, Grant Samuel has not separately included a value for the mark to market value of derivatives at any particular point in time. In any event, balances at 25 January 2014 (the latest balance sheet) were de minimis (less than $1 million).

5.7 Head Office Costs

Head office costs are fully allocated to David Jones' Australian operating businesses for the purposes of financial reporting. Any acquirer of 100% of David Jones would be able to save the costs associated with being a publicly listed company. David Jones has identified costs of $4 million per annum associated with being a public listed company (directors, ASX listing fees etc.).

The ability to save other head office costs is less clear particularly as the most likely acquirers are based overseas and would not be in a position to eliminate duplicate head office functions. In any event, allowing for such savings would potentially double count them given the earnings multiples from comparable transactions reflect (to some extent) synergies available to the acquirer.

5.8 Franking Credits

Under Australia's dividend imputation system, domestic equity investors receive a taxation credit (franking credit) for tax paid by a company. The franking credit attaches to any dividends paid by a company and the franking credit offsets personal tax for Australian investors. To the extent that personal tax has been fully offset the individual will receive a refund of the balance of the franking credit. Franking credits therefore have value to the recipient.

However, in Grant Samuel's opinion, while acquirers are attracted by franking credits there is no clear evidence that they will actually pay extra for a company with them (at any rate the sharemarket evidence used by Grant Samuel in valuing the David Jones businesses will already reflect the value impact of the existence of franking credits). Further, franking credits are not an asset of the company in the sense that they can be readily realised for a cash sum that is capable of being received by all shareholders. The value of franking credits can only be realised by shareholders themselves when they receive distributions. Importantly, the value of franking credits is dependent on the tax position of each individual shareholder. Typically for overseas shareholders, they will have very little or no value although there may be value to some overseas shareholders in particular circumstances (e.g. if the franking credits may be able to be used to eliminate withholding tax on dividends). Similarly, if they are attached to a distribution which would otherwise take the form of a capital gain taxed at concessional rates there may be minimal net benefit (in fact, there may be some categories of shareholders who are worse off in this situation[39]).

Accordingly, while franking credits may potentially have value to some shareholders they do not affect the underlying value of the company itself. No value has therefore been attributed to David Jones' accumulated franking credit position ($62.3 million as at 25 January 2014) in the context of the value of David Jones as a whole.

[39] For example, shareholders with a capital loss on disposal of the shares.

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6 Evaluation of the Woolworths Offer

6.1 Opinion

In Grant Samuel's opinion the Woolworths Offer is fair and reasonable and, therefore, is in the best interests of David Jones shareholders, in the absence of a superior proposal.

6.2 Fairness

Grant Samuel has estimated the full underlying value in David Jones, including a premium for control, to be in the range $2,000-2,225 million which corresponds to $3.73-4.14 per share. The value is the aggregate value of the estimated value of David Jones' operating businesses together with other assets less external liabilities and any non trading assets or liabilities. In particular, the value:

- allows for the value inherent in David Jones' ownership of the freehold of its four flagship store sites in the CBDs of Sydney and Melbourne including the potential value of air rights;
- allows for the significant seasonal variations in working capital requirements (and therefore net debt) across the year; and
- takes account of the potential for synergies that might be available to acquirers.

The value range exceeds the price at which, based on current market conditions, Grant Samuel would expect David Jones shares to trade on the ASX in the absence of a takeover offer (or speculation as to an offer). The valuation is set out in Section 5 of this report.

The Woolworths Offer of $4.00 per share falls within the value range of $3.73-4.14. Accordingly, the Woolworths Offer is fair. The bottom of the value range represents the relevant threshold for fairness. Any price above the bottom of the range is, by definition, fair and it is irrelevant where in the range an offer falls.

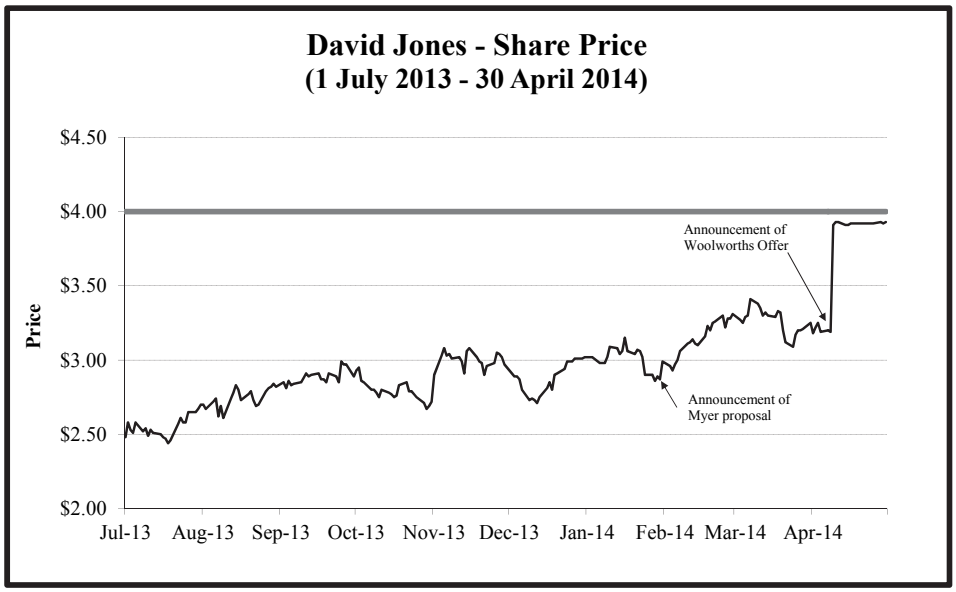
6.3 Reasonableness

As the Woolworths Offer is fair, it is also reasonable. In any event, there are a number of other factors that support the reasonableness of the Woolworths Offer and which David Jones shareholders should consider in determining whether or not to vote in favour of the Woolworths Offer. These factors are set out in the following sections.

6.3.1 Premium for Control

The David Jones share price trading history on the ASX since 1 July 2013 is depicted below:

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Source: IRESS

Since mid 2013 David Jones shares have been on generally upward trajectory reflecting the improving performance of the business (and despite the governance issues and management uncertainty). The shares have risen from around $2.50 to around $3.00 and traded steadily at this level until the press speculation regarding the Myer merger proposal and the subsequent confirmation by David Jones (30 January 2014) and Myer (31 January 2014). Myer's announcement included its original proposal which contained details of the proposed merger ratio and the expected synergies (as well as the value of the synergies). Following those announcements, David Jones shares traded up to around $3.30 presumably reflecting an expectation that some kind of merger deal was possible, particularly with the announcements on 20 February 2014 when Myer reiterated its interest and David Jones announced that it would consider any proposal in the best interests of David Jones shareholders. These expectations would have been further reinforced by David Jones announcement on 18 March 2014 that it had appointed management consultants to examine the synergies that could be expected from such a merger.

The following table summarises the premiums over the David Jones share price represented by the Woolworths Offer on two bases:

- up to 30 January 2014, the last trading day prior to the Myer Proposal being publicly confirmed; and
- up to 8 April 2014, the last trading day prior to the announcement of the Woolworths Offer.

Premiums Implied by the Woolworths Offer

Period	Premium	
	Prices to 30 January 2014	Prices to 8 April 2014
Closing Price	39.4%	25.4%
VWAP – 1 week prior	37.8%	27.0%
VWAP – 1 month prior	33.1%	24.4%
VWAP – 3 months prior	36.8%	26.8%

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The level of control premiums observed in takeovers tends to fall in the range 20-35% but it is important to recognise that:

- premiums for control are an outcome not a determinant of value; and
- they vary widely depending on individual circumstances. In fact, some studies show that the majority of transactions actually fall outside this "standard" range.

In the case of David Jones, the premiums implied by the Woolworths Offer over the 8 April 2014 share price (circa 25%) are reasonable but towards the lower end of the standard range. However, in Grant Samuel's opinion, the premiums based on prices up to 30 January 2014 are the more relevant as these are undisturbed prices and are a better reflection of where David Jones shares would trade in the absence of a takeover offer or any speculation as to one. On this basis, the Woolworths Offer represents very substantial premiums for control (circa 35-40%).

6.3.2 Share Trading in the Absence of the Offer

In the absence of the Woolworths Offer or any alternative offer, shareholders can only realise their investment by selling on the ASX at a price which does not include any premium for control and would incur transaction costs (e.g. brokerage). In these circumstances, assuming there is also no speculation as to an offer and based on trading in David Jones shares prior to the Woolworths Offer, it is likely that, under current market conditions, David Jones shares would trade at prices well below $4.00. Whether it would fall all the way back to around $3.00 is uncertain as it is possible that the increased market focus on the business and its performance, the awareness of its attractions to other retailers and the greater certainty about management (i.e. the CEO committing to remain) may positively impact trading in the shares.

6.3.3 Alternative Proposals

Following the announcement of the Woolworths Offer, Myer announced that it would no longer proceed with developing its merger proposal. It is not unreasonable to assume that if the Woolworths Offer is not successful and is withdrawn, a merger with Myer could be "back on the cards". It is therefore relevant for David Jones shareholders to consider whether they might have been, or could be, better off through some kind of merger transaction with Myer. However:

- there is no certainty that Myer would reactivate such a proposal or that the terms of a mutually acceptable transaction could ever be agreed;
- the key financial driver of the merger, being the synergy benefits, were not subjected to detailed evaluation. Myer has made public its preliminary estimate ($85 million per annum in costs savings) but neither side had conducted due diligence on each other and David Jones only commissioned Port Jackson Partners to commence its evaluation of the benefits on 18 March 2014 (and which has now been suspended);
- even if the Myer estimates are adopted it is unlikely that David Jones shareholders would be better off than under the Woolworths Offer (at least without some future change of control event for the merged group). Myer estimated the gross value of the synergy benefits (to be shared) at $900 million based on the annual run rate of $85 million and the blended EBIT multiples at 25 October 2013. After one-off implementation costs of $109 million, and based on Myer's proposed merger ratio, Myer estimated the net benefit to David Jones shareholders at $390 million. The effective value is less (by approximately $30 million) because the synergy benefits were expected to arise progressively over a four year period.

  On the basis of these calculations, the potential value of the synergies would have been approximately 70 cents per David Jones share. Assuming other things remained equal and using the pre 30 January 2014 share price of around $3.00, the theoretical post merger value falls short of the Woolworths Offer of $4.00. In any event:

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- there is no certainty that the expected level of synergies would have been realised or, more particularly, able to be retained over the medium term (i.e. the new higher margins may come under competitive pressure over time); and
- it is uncertain what market rating would have applied to the merged group and there are clearly risks in situations where the two companies previously traded at substantially different multiples; and

- in making their recommendation as to the Woolworths Offer, the directors of David Jones considered the value that could be generated through alternatives such as the Myer proposal and concluded that they did not provide value that was likely to be superior to the Woolworths Offer.

It is conceivable that a third party (e.g. another international department store operator) could make a higher offer for David Jones:

- the Myer proposal and the Woolworths Offer have highlighted the potential for synergies for acquirers;
- despite the challenges of the retail industry, David Jones has a highly attractive market position that should be well situated to capitalise on any strengthening of retail expenditure by higher demographic sectors of the population;
- there are no shareholders owning more than 10% of David Jones and there are no structural impediments to an alternative acquirer. While there are the usual exclusivity provisions in the Scheme Implementation Agreement, there is a fiduciary carve out and David Jones can respond to unsolicited proposals from other parties (subject to a disclosure obligation); and
- while the extent of the premium already offered by Woolworths may be somewhat of a deterrent, it would not necessarily stop a determined bidder.

The meeting at which David Jones shareholders will vote on the Woolworths Offer is scheduled for 30 June 2014. This should be ample time for an alternative offeror to come forward. If this does not occur, it would be imprudent for shareholders to reject the Woolworths Offer in anticipation of a higher offer from either Woolworths or a third party.

6.4 Other Matters

6.4.1 Tax Consequences

If the Woolworths Offer is approved and is implemented, shareholders will be treated as having disposed of their shares for tax purposes. A gain or loss may arise on disposal depending on the cost base of David Jones shares, the length of time held, whether the shares are held on capital or revenue account and whether or not the shareholder is an Australian resident for tax purposes.

Details of the taxation consequences are set out in Section 8 of the Scheme Booklet. Shareholders should consult their own adviser in relation to the taxation consequences.

6.4.2 Transaction Costs

If the Woolworths Offer is not approved, David Jones will incur transaction costs of approximately $5.5 million. If the Woolworths Offer is approved, all transaction costs will effectively be borne by Woolworths.

6.5 Shareholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Woolworths Offer is fair and reasonable and in the best interests of shareholders and to state reasons for that opinion.

Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Woolworths Offer, the responsibility for which lies with the directors of David Jones. In any event, the decision whether to vote for or against the Woolworths Offer is a matter for individual shareholders based on each shareholder's views as to value, their expectations about the future performance of David Jones and future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Woolworths Offer, shareholders should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in David Jones. This is an investment decision and independent of a decision on whether to vote for or against the Woolworths Offer upon which Grant Samuel does not offer an opinion. Shareholders should consult their own professional adviser in this regard.

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7 Qualifications, Declarations and Consents

7.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally) and provides marketing and distribution services to fund managers. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 500 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Wilson BCom MCom(Hons) CA(NZ) SF Fin and Ross Grant BSc (Hons) MComm (Hons) MBA. Each has a significant number of years of experience in relevant corporate advisory matters. Matt Leroux MEng MBA, Celeste Oakley BEc LLB CFA F Fin and Lachlan Whittaker BCom (Liberal Studies)(Hons) CA assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

7.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Woolworths Offer is fair and reasonable and in the best interests of shareholders. Grant Samuel expressly disclaims any liability to any David Jones shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel has had no involvement in the preparation of the Scheme Booklet issued by David Jones and has not verified or approved any of the contents of the Scheme Booklet. Grant Samuel does not accept any responsibility for the contents of the Scheme Booklet (except for this report).

7.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with David Jones or Woolworths or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Woolworths Offer.

Grant Samuel had no part in the formulation of the Woolworths Offer. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of $450,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Woolworths Offer. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

7.4 Declarations

David Jones has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or directly in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving negligence, wilful misconduct or a fraudulent act or omission by Grant Samuel. David Jones has also agreed to indemnify Grant

Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where, in respect of that proceeding, Grant Samuel or its employees and officers are found to have been guilty of negligence, wilful misconduct or a fraudulent act or omission, Grant Samuel shall reimburse to David Jones the proportion of such costs caused by its action. Any claims by David Jones against Grant Samuel are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to David Jones and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Scheme Booklet to be sent to shareholders of David Jones. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

7.6 Other

The accompanying letter dated 22 May 2014 and the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
22 May 2014



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Appendix 1

Broker Consensus Forecasts

David Jones has not publicly released earnings forecasts for FY14 or beyond. Accordingly, the prospective multiples implied by the valuation of David Jones in the Grant Samuel report are based on median broker forecasts. Set out below is a summary of forecasts prepared by brokers that follow David Jones in the Australian stockmarket:

David Jones – Broker Forecasts ($ millions)

Broker	Date	EBITDA[1]		EBIT[2]		NPAT[3]	
		Year ending 26 July 2014	Year ending 25 July 2015	Year ending 26 July 2014	Year ending 25 July 2015	Year ending 26 July 2014	Year ending 25 July 2015
Broker 1	10-Apr-14	193.2	214.5	132.0	148.6	87.1	98.1
Broker 2	10-Apr-14	195.0	214.0	131.0	150.0	88.0	99.0
Broker 3	10-Apr-14	207.0	231.2	143.4	166.2	97.0	112.6
Broker 4	9-Apr-14	188.0	199.0	131.0	138.0	86.0	91.0
Broker 5	9-Apr-14	192.0	216.7	131.5	154.5	85.2	103.0
Broker 6	9-Apr-14	196.0	207.0	133.0	140.0	89.0	94.0
Broker 7	9-Apr-14	199.0	220.0	136.0	155.0	91.0	104.0
Broker 8	9-Apr-14	202.7	211.7	139.7	146.7	94.5	99.5
Broker 9	9-Apr-14	203.8	235.9	140.7	170.5	94.5	114.3
Broker 10	9-Apr-14	198.0	224.0	136.0	158.0	93.0	106.0
Broker 11	9-Apr-14	208.0	226.0	146.0	162.0	98.0	110.0
Broker 12	9-Apr-14	196.7	221.6	134.3	156.5	90.0	104.8
Broker 13	9-Apr-14	213.0	230.0	150.0	162.0	100.0	109.0
Broker 14	20-Mar-14	197.8	220.4	134.8	155.4	91.2	106.0
Minimum		188.0	199.0	131.0	138.0	85.2	91.0
Maximum		213.0	235.9	150.0	170.5	100.0	114.3
Median		***197.9***	***220.2***	***135.4***	***155.2***	***91.1***	***104.4***

Source: Brokers' reports, Grant Samuel analysis

When reviewing this data the following should be noted:

- the forecasts presented above represent the latest available broker forecasts for David Jones;
- the brokers presented are those who have published research on David Jones subsequent to the announcement of David Jones' half yearly results on 19 March 2014;
- Grant Samuel is aware of only four other brokers that follow David Jones. These brokers have not released any research on David Jones that includes earnings forecasts subsequent to the announcement of David Jones' half yearly results on 19 March 2014; and
- as far as it is possible to identify from a review of the brokers' reports, Grant Samuel believes that the broker earnings forecasts have been prepared on a consistent basis.

1 EBITDA is earnings before net interest, tax, depreciation, amortisation and significant and non-recurring items.

2 EBIT is earnings before net interest, tax, and significant and non-recurring items.

3 NPAT is net profit after tax before significant and non-recurring items.

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Appendix 2

Market Evidence - Transactions

There is limited transaction evidence involving Australian department store retailers reflecting the competitive landscape of Australian retail. Over the past decade virtually all middle to up-market department store transactions have involved international retailers. All of the transactions set out below, in particular the more recent acquisitions of Neiman Marcus Group LTD Inc. and Saks Incorporated, provide evidence of prices that acquirers are willing to pay and provide support for the multiples implied by the valuation of David Jones:

Recent Transaction Evidence – Department Store Retailers

Date	Target	Transaction	Consideration[1] (millions)	Revenue Multiple[2] (times)		EBITDA Multiple[3] (times)		EBIT Multiple[4] (times)	
				Historical[5]	Forecast[5]	Historical	Forecast	Historical	Forecast
Department Stores – Australia and New Zealand									
Nov 09	Myer Holdings Limited	Initial public offering of Myer Holdings Limited	A$2,384	0.8	0.8	9.2	8.4	11.7	10.6
Mar 06	Myer Department Stores	Acquisition by TPG-Newbridge Capital	A$1,409	0.5	0.5	14.5	11.7	36.1	23.4
Department Stores – North America									
Sep 13	Neiman Marcus Group LTD Inc.	Acquisition by Ares Management LLC and Canada Pension Plan Investment Board	US$3,555	1.3	na[6]	9.6	na	13.7	na
Jul 13	Saks Incorporated	Acquisition by Hudson's Bay Company	US$2,404	0.9	0.9	11.0[7]	11.5[8]	19.8	22.9
Oct 05	Hudson's Bay Company	Acquisition by Maple Leaf Heritage Investments ULC	C$1,132	0.2	0.2	5.1	5.3	12.3	14.0
May 05	The Neiman Marcus Group, Inc.	Acquisition by Private Equity Consortium	US$5,200	1.5	1.3	12.0	10.0	15.4	12.5
Feb 05	The May Department Stores Company	Acquisition by Federated Department Stores	US$11,567	1.2	1.1	9.3	8.5	14.1	11.9
Nov 04	Sears, Roebuck and Company	Merger of Sears, Roebuck and Company and Kmart	US$11,542	0.4	0.5	nmf[9]	9.3	nmf	19.8
Nov 04	Barneys New York, Inc.	Acquisition by Jones Apparel Group Inc	US$307	0.9	na	10.5	8.2	15.8	11.0
Jul 04	Mervyns LLC	Acquisition by Investor Group	US$1,650	0.5	na	5.6	na	8.5	na
Jun 04	Marshall Field's	Acquisition by The May Department Stores Company	US$3,200	1.2	1.1	12.1	13.9	21.9	na
Department Stores – UK and Europe									
May 11	Gruppo Coin S.p.A.	Acquisition by BC Partners	€930	0.8	0.7	6.4	5.2	11.2	7.6
Aug 06	House of Fraser plc	Acquisition by Consortium led by Baugur Group	£351	0.5	0.5	8.4	7.8	14.5	14.4
Jun 06	Printemps SAS	Acquisition by RREEF America L.L.C and Borletti Group S.C.A	€1,075	1.4	na	17.2	na	nmf	na

1 Implied equity value if 100% of the company or business had been acquired.

2 Represents gross consideration divided by revenue. Gross consideration is the sum of the equity and/or cash consideration plus borrowings net of cash.

3 Represents gross consideration divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation and significant and non-recurring items.

4 Represents gross consideration divided by EBIT. EBIT is earnings before net interest, tax and significant and non-recurring items.

5 Historical multiples are based on the most recent publicly available full year earnings prior to the transaction announcement date. Forecast multiples are based on company published earnings forecasts or brokers' reports available at transaction announcement date.

6 na = not applicable.

7 Using the transaction enterprise value disclosed in Hudson's Bay Company's 2014 annual report implies a historical EBITDA multiple of 11.0 times (10.4 times after adding back stock-based compensation). The multiple is slightly lower at 10.2 times (9.6 times after adding back stock-based compensation) when using enterprise value at the time of transaction announcement.

8 Brokers anticipated Saks Incorporated's earnings to decrease in the forecast financial year due to an expected increase in expenditure on omni-channel initiatives, website development, marketing and sales commissions.

9 nmf = not meaningful.

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Recent Transaction Evidence – Department Store Retailers									
Date	Target	Transaction	Consideration[1] (millions)	Revenue Multiple[2] (times)		EBITDA Multiple[3] (times)		EBIT Multiple[4] (times)	
				Historical[5]	Forecast[5]	Historical	Forecast	Historical	Forecast
Mar 05	Societe Anonyme des Galeries Lafayette	Acquisition by Moulin Family and BNP Paribas	€3,083	0.6	0.6	6.9	6.4	10.4	9.2
Apr 04	Koninklijke Vendex KBB NV	Acquisition by VDXK Acquisition BV	€1,397	0.5	0.5	7.0	6.5	13.7	11.4
Sep 03	Debenhams plc	Acquisition by Private Equity Consortium	£1,770	1.0	1.0	7.0	6.2	10.2	9.4
May 03	Selfridges plc	Acquisition by Wittington Investments Limited	£601	1.4	1.3	10.2	9.4	14.4	14.3
Department Stores – Developed Asia									
Jan 08	Robinson and Company, Limited	Acquisition by Al-Futtaim Trading Company LLC	S$619	1.1	0.9	11.8	9.9	15.4	13.2

Source: Grant Samuel analysis[10]

A brief summary of each transaction is set out below:

Initial Public Offering of Myer Holdings Limited

On 2 November 2009, Myer Holdings Limited ("Myer") listed on the Australian Securities Exchange. Myer's former controlling shareholders, Texas Pacific Group ("TPG") and Blum Strategic Capital (previously TPG-Newbridge Capital), acquired the business for A$1.4 billion in 2006 and sold all of their shareholdings as part of the initial public offering ("IPO"). Indicative pricing for the IPO ranged A$3.90 to A$4.90 per share, however, broader market and economic uncertainty contributed to the transaction being priced at the lower end of the range at A$4.10 per share. On the first day of trading, Myer's share price decreased by A$0.35 (8.5%) to close at A$3.75 per share. Over the next six months Myer's share price continued to decline falling below A$3.00 per share in May 2010 before gradually rebounding to an all-time high of A$4.02 per share (excluding the IPO) in September 2010. Myer's share price is yet to trade above its listing price. At the time of the transaction Myer had 65 stores across Australia.

Myer Department Stores / TPG-Newbridge Capital

On 13 March 2006, Coles Myer Ltd announced that it had reached an agreement to sell its Myer department store business to TPG-Newbridge Capital and The Myer Family for A$1.4 billion. Myer had 61 stores operating at the time of the sale, achieving sales of close to A$3 billion in the financial year ending 31 July 2005. Myer had been underperforming for a number of years and TPG-Newbridge Capital expected to generate significant cost savings post acquisition. The multiples implied by the transaction reflect the expectations of cost savings.

Neiman Marcus Group LTD Inc. / Ares Management LLC and Canada Pension Plan Investment Board

On 9 September 2013, Ares Management LLC and Canada Pension Plan Investment Board announced they had entered an agreement to acquire Neiman Marcus Group LTD Inc ("Neiman Marcus") from a consortium of investors led by TPG and Warburg Pincus for US$6.0 billion in cash. All of Neiman Marcus' credit facilities (US$2.6 billion) were to be repaid as part of the transaction apart from its senior debentures (US$0.1 billion). With revenue of more than US$4.6 billion and 6.8 million square feet of retail space across 85 stores throughout the United States, Neiman Marcus is one of the largest up-market department store retailers in the world. At the time of the transaction, Neiman Marcus operated 41 namesake stores (24 of which were either owned or owned subject to ground lease), two Bergdorf Goodman locations on Fifth Avenue in New York, 36 Last Call outlet centres, six small format stores under the CUSP brand and an e-commerce platform. The Neiman Marcus and Bergdorf Goodman stores generate the majority of Neiman Marcus' earnings, offering luxury and high luxury

[10] Grant Samuel analysis based on data obtained from IRESS, Capital IQ, Bloomberg, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.

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goods, respectively. Neiman Marcus' Last Call and CUSP stores offer goods sourced either directly or from the luxury stores as part of end-of-season clearances. For the financial year ending 3 August 2013, Neiman Marcus reported EBITDA and EBIT of US$635 million and US$446 million, respectively. The transaction closed on 25 October 2013.

Saks Incorporated / Hudson's Bay Company

On 29 July 2013, Hudson's Bay Company ("Hudson's Bay") and Saks Incorporated ("Saks") announced they had entered a merger agreement whereby Hudson's Bay would acquire Saks for US$16.0 per share in cash. The transaction valued Saks' equity at US$2.4 billion. At the time of the transaction, Saks operated 41 Saks Fifth Avenue stores (4.9 million square feet) and 67 Saks Fifth Avenue OFF 5TH stores (2.0 million square feet) in addition to maintaining an online presence through saks.com. Saks is recognised for its collections of luxury brands, including Giorgio Armani, Dolce and Gabbana, Chanel, Gucci, Louis Vuitton, Hugo Boss and Ralph Lauren. To supplement its branded merchandise, Saks also maintains a private label collection, including 9|15 and Saks Fifth Avenue Men's Collection. Of Saks' 108 stores, 25 were owned (or owned subject to ground lease) while 83 stores were leased. For the financial year ending 2 February 2013, Saks reported revenue of US$3.1 billion and EBITDA of US$270.5 million (US$286.5 million after adding back stock-based compensation). Applying the transaction enterprise value disclosed in Hudson's Bay 2014 annual report implies a historical EBITDA multiple of 11.0 times (10.4 times after adding back stock-based compensation). The multiple is slightly lower at 10.2 times (9.6 times after adding back stock-based compensation) when using enterprise value at the time of transaction announcement. Hudson's Bay is Canada's largest department store retailer and the acquisition was expected to deliver annual synergies of up to C$100 million over three years and bolster its presence in the United States beyond its 52 Lord and Taylor stores. The transaction closed on 4 November 2013.

Hudson's Bay Company / Maple Leaf Heritage Investments ULC

On 28 October 2005, Hudson's Bay received an unsolicited cash offer from Maple Leaf Heritage Investments ULC ("Maple Leaf", wholly owned by Jerry Zucker) to acquire the outstanding unowned 81.2% shareholding in Hudson's Bay at C$14.75 per share. Following a competitive sale process, Maple Leaf increased its offer to C$15.25 per share valuing Hudson Bay's equity at C$1.1 billion. Hudson Bay's retail operations had been underperforming with the marginal or negative earnings from this segment being supplemented by Hudson Bay's credit card business. The multiples implied by the transaction reflect this underperformance and the expected turnaround under new ownership.

The Neiman Marcus Group, Inc / Private Equity Consortium

In May 2005, a consortium made up of TPG and Warburg Pincus LLC ("Warburg Pincus") announced that it had signed an agreement with Neiman Marcus to purchase all of its shares for US$5.2 billion. The Neiman Marcus operations consisted of Neiman Marcus and Bergdorf Goodman department stores, and a direct marketing division operating print catalogue and online operations.

The May Department Stores Company / Federated Department Stores

On 28 February 2005, Federated Department Stores ("Federated") announced the acquisition of The May Department Stores Company ("May") for US$17.5 billion. Each May shareholder received US$17.75 per share in cash and 0.3115 shares of Federated stock. At the end of fiscal 2004, May operated 491 department stores in 46 states in the United States, the District of Columbia and Puerto Rico. As a result of the acquisition Federated increased its retail footprint and expected to realise approximately US$450 million in cost synergies by 2007 from the consolidation of central functions, division integrations, national advertising and economies of scale.

Sears, Roebuck and Company / Kmart Holding Corporation

In November 2004, Kmart Holding Corporation ("Kmart") and Sears, Roebuck and Company ("Sears") entered an agreement to merge under the new name "Sears Holdings Corporation". The combined entity had almost 3,500 retail stores. Kmart shareholders received one share in Sears Holdings whilst Sears' shareholders received US$50 in cash or 0.5 of a Sears Holdings share, prorated so that in the aggregate 55% of Sears' shares would be converted into Sears Holdings shares and 45% would be converted into cash. The deal had a value of approximately US$11 billion to Sears' shareholders and came less than 18 months after Kmart emerged from

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bankruptcy. The combination of the two companies was estimated to generate US$500 million of annualised cost and revenue synergies from cross-selling opportunities, improved purchasing scale and other efficiencies. Due to the sale of Sears' credit card business in the year preceding the transaction, the historical multiples shown for Sears are not meaningful.

Barneys New York, Inc / Jones Apparel Group, Inc

In November 2004, Barneys New York Inc. ("Barneys") and Jones Apparel Group Inc ("Jones Apparel") entered into a merger agreement whereby Jones Apparel would acquire Barneys by paying US$19 per share to each Barneys' stockholder. Barneys was a luxury retailer of men's and women's fashion, accessories, cosmetics and home furnishings, operating flagship stores in New York City, Beverly Hills and Chicago as well as three regional full price stores, four CO-OP Barneys New York stores and eleven outlet stores. The acquisition of the luxury retailer significantly diversified the brand portfolio of Jones Apparel.

Marshall Field's business / The May Department Stores Company
Mervyns LLC / Investor Group

In June 2004, Target Corporation ("Target") announced that it would be selling its Marshall Field's business to May for US$3.2 billion. The assets sold by Target included 62 Marshall Field's locations, three distribution centres related to Marshall Field's, US$600m of credit card receivables and nine Mervyn' Stores locations. The sale of Marshall Field's by Target allowed them to concentrate on their core discount business. Marshall Field's accounted for 5.4% of Target's total revenue in 2003. May's expected to realise pre−tax synergies of US$85 million in fiscal year 2005, US$140 million in fiscal year 2006, and US$180 million per year thereafter.

The second part of Target's department store divestment, the sale of Mervyns LLC ("Mervyns"), was announced on 29 July 2004. An investor group consisting of Sun Capital, Cerberus Capital Management LP and Lubert-Adler and Klaff Partners LP paid US$1.65 billion in cash for 257 Mervyns' stores and four distribution centres. US$475 million in credit card receivables attributable to Mervyns were sold to GE Consumer Finance. It was likely that underperforming stores would be developed or sold for their realty by Lubert-Adler and Klaff Realty.

The prices paid for both Marshall Fields and Mervyns far exceeded the price that brokers were estimating prior to the sale. The multiples for Marshall Field's and Mervyns include an apportionment of Mervyns' revenue and EBITDA to account for the 9 Mervyns stores acquired by May.

Gruppo Coin S.p.A. / BC Partners

On 9 May 2011, PAI Partners announced it had entered an agreement with Icon S.r.l., a company controlled by funds advised by BC Partners, to sell its 69.3% shareholding in Gruppo Coin S.p.A. ("Gruppo Coin") for €6.50 per share. BC Partners also agreed to acquire the 9.4% shareholdings held by management and Dicembre 2007 S.p.A. in a transaction which valued Gruppo Coin's equity at €930 million. Following completion of the transaction on 30 June 2011, BC Partners lauched a tender offer on 19 July 2011 to acquire the remaining 21.3% shareholding in Gruppo Coin. At the time of the transaction, Gruppo Coin was a leading department and apparel store retailer based in Italy with around 100 stores under the 'Coin' brand (excluding its franchise network) and more than 450 stores under the 'Oviesse' and 'Upim' brands (excluding its franchise network).

House of Fraser plc / Consortium led by Baugur Group

On 24 August 2006, House of Fraser plc ("House of Fraser") announced it had reached agreement on the terms of a recommended proposal for a consortium led by Baugur Group to acquire House of Fraser for 148 pence per share in cash. The transaction valued House of Fraser's issued capital at £351 million. At the time of acquisition House of Fraser sold a broad range of branded fashion and home merchandise. With a total of 61 stores across the UK and Ireland, House of Fraser was one of Britain's largest department store retailers. For the financial year ending 28 January 2006, House of Fraser reported revenue of £1.0 billion and EBITDA of £61.2 million. The transaction closed on 8 November 2006.

Printemps SAS / RREEF America L.L.C and Borletti Group S.C.A

In June 2006, PPR SA confirmed it was in exclusive negotiations with RREEF America L.L.C and Borletti Group S.C.A in relation to the sale of its interests in Printemps SAS ("Printemps"). The transaction valued the

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business at €1.1 billion and completed on 31 March 2007. PPR SA deemed the growth potential of Printemps retail businesses as insufficient and was able to capitalise on an offer based on an asset valuation. Post-acquisition, Printemps new owners implemented a range of strategic initiatives with a view to improving sales growth and margins and transforming Printemps from a traditional department store chain to a collection of luxury shopping destinations. Printemps was subsequently sold in July 2013 to private interests from Qatar for a reported €1.8 billion, including debt. Transaction details were not disclosed.

Societe Anonyme des Galeries Lafayette / Moulin Family and BNP Paribas

On 29 March 2005, Societe Anonyme des Galeries Lafayette's ("Galeries Lafayette") largest shareholder, the Moulin Family, made an offer in conjuction with BNP Paribas to acquire Galeries Lafayette for €235 per share. Owning 31.7% of share capital prior to the transaction, the Moulin family was one of Galeries Lafayette's two controlling family shareholders. Galeries Lafayette's other major family shareholder, the Meyer family, agreed to sell its 29.5% interest to BNP Paribas as part of the deal. The transaction implied a value of Galeries Lafayette's equity of €3.1 billion. Galeries Lafeyette operated a collection of department and supermarket stores, including its namesake ten-story flagship department store in Paris and Marks & Spencer's French network acquired in 2001. The transaction closed on 11 May 2005.

Koninklijke Vendex KBB NV / VDXK Acquisition BV

On 26 April 2004, VDXK Acquisition BV ("VDXK"), a holding company incorporated in the Netherlands controlled by a consortium comprising Kohlberg Kravis Roberts & Co LP ("KKR"), Change Capital Partners LLP and AlpInvest Partners NV, made an amended bid of €15.40 for all of the shares in Koninklijke Vendex KBB NV ("Vendex KBB"), the largest non-food retailer in the Netherlands. The bid was reduced from €16.00 to reflect Vendex KBB's poorer than expected financial results. At the end of 2003 Vendex was approached by a number of large international private equity houses regarding a possible public offer for the company. In reaction, the board of Vendex KBB decided to undertake a preliminary sale process. Proposals of around €14 per share were received, and two parties were allowed to participate in a more extensive due diligence process, leading to an initial bid of €16 from VDXK. The total consideration paid by VDXK was €2.2 billion.

Debenhams plc / Private Equity Consortium

In September 2003, a consortium comprising CVC Partners, TPG and Merrill Lynch Private Equity announced an offer of £4.55 per share for all of the shares in Debenhams plc ("Debenhams"), a chain of 144 department stores predominantly based in the United Kingdom. The total cash paid for the company was £1.8 billion.

Selfridges plc / Wittington Investments Limited

On 12 May 2003, Selfridges plc ("Selfridges") and Oxford Acquisitions Limited, a subsidiary of Wittington Investments Limited, announced they had reached agreement on the terms of a recommended cash offer for the outstanding share capital of Selfridges. The agreed proposal offered shareholders 387 pence per share in cash, representing a 58.3% premium to the closing price of 244.5 pence per share on 8 April 2003, the day prior to Selfridges announcing it had received an approach that may lead to an offer. At the time of acquisition, Selfridges was a leading department store operator in the United Kingdom. For the financial year ending 1 February 2003, Selfridges reported revenue and EBITDA of £444.9 million and £64.1 million, respectively. The transaction valued Selfridge's equity at £560.3 million and closed on 17 September 2003.

Robinson and Company Limited / ALF Global Private Ltd

On 20 January 2008, Robinson and Company ("Robinson") announced it had received an offer from ALF Global Private Ltd ("ALF Global") for the unowned issued capital of Robinson at S$6.25 per share. Following marginal shareholder acceptance, ALF Global increased its offer to S$7.00 per share on 17 March 2008. With Singapore-listed Auric Pacific Group, Robinson's largest shareholder, not tendering its 29.9% shareholding to the revised offer, ALF Global increased its offer to S$7.20 per share on 2 April 2008. The transaction completed on 30 April 2008 with the final offer price representing a 61.4% premium to the pre-announcement trading price on 18 January 2008. At the time of the transaction, Robinson owned or managed Robinson, John Little and Marks & Spencer department stores in addition to other specialty stores in Singapore and Malaysia.

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Appendix 3

Market Evidence – Comparable Listed Companies

The valuation of David Jones has been considered in the context of the sharemarket ratings of publicly listed Australian and international department store retailers. These companies are the most comparable to David Jones and are set out below. Australian retail category specialist companies are not directly comparable to David Jones although they are similarly affected by discretionary retail expenditure. These companies also generally have a stronger sales and earnings growth outlook. In any case, the sharemarket ratings for select companies from this sub-sector are outlined below for completeness:

Sharemarket Ratings of Selected Listed Companies – Department Stores and Retail Category Specialists[1]

Company	Primary Geographic Region	Market Capital-isation[2] (millions)	EBITDA Multiple[3] (times)		EBIT Multiple[4] (times)		Price Earnings Multiple[5] (times)	
			Current Year	Forecast Year	Current Year	Forecast Year	Current Year	Forecast Year
International Department Stores								
Macy's	N.America	US$21,905	6.8	6.5	9.3	8.7	13.7	12.9
Nordstrom	N.America	US$12,470	7.7	7.3	10.5	10.0	16.3	15.4
Marks & Spencer	U.Kingdom	£7,207	7.5	7.0	12.2	11.3	13.6	12.4
Kohl's	N.America	US$11,901	5.9	5.7	9.0	8.8	13.4	13.1
Lojas Americanas	S.America	BRL15,475	9.9	8.3	11.8	9.9	31.5	24.2
Woolworths Holdings	Africa	R60,640	11.5	10.2	13.8	12.2	19.8	17.5
Isetan Mitsukoshi	Asia	¥501,104	10.2	9.7	16.6	15.8	22.2	20.4
Dillard's	N.America	US$4,302	6.1	5.9	8.9	8.5	13.1	12.5
Lifestyle International	Asia	HK$25,136	9.8	9.3	11.0	10.1	11.4	11.3
Takashimaya	Asia	¥319,325	7.7	7.4	12.4	11.7	14.9	14.8
Hudson's Bay Company	N.America	C$3,270	nmf[6]	10.6	nmf	19.6	nmf	24.6
Debenhams	U.Kingdom	£984	5.8	6.0	10.4	10.5	10.7	10.9
Australian Department Stores								
Myer	Australia	A$1,300	5.6	5.3	8.5	7.9	11.8	10.9
Australian Retail Category Specialists								
Harvey Norman	Australia	A$3,487	10.3	9.3	13.1	11.6	16.9	14.6
Super Retail Group	Australia	A$1,999	9.3	8.4	11.8	10.4	16.7	14.5
JB Hi-Fi	Australia	A$1,957	8.6	8.0	10.2	9.5	15.1	14.1
Premier Investments	Australia	A$1,541	10.9	9.8	13.3	11.8	19.7	17.7
Kathmandu	Australia	A$681	10.0	9.1	11.6	10.5	16.1	14.3
The Reject Shop	Australia	A$288	6.2	5.6	10.2	8.9	16.3	13.8
OrotonGroup	Australia	A$168	8.3	7.1	11.6	9.6	19.3	14.3

Source: Grant Samuel analysis[7]

The multiples shown above are based on sharemarket prices as at 30 April 2014 and do not reflect a premium for control.

1 The companies selected have a variety of year ends. Earnings for each company have been calendarised to reflect a 26 July 2014 year end ("current year") and 25 July 2015 year end ("forecast year) in order to be consistent with the year end of David Jones.

2 Market capitalisation based on sharemarket prices as at 30 April 2014.

3 Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation and significant and non-recurring items.

4 Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax and significant and non-recurring items.

5 Represents market capitalisation divided by net profit after tax (before significant and non-recurring items).

6 nmf = not meaningful.

7 Grant Samuel analysis based on data obtained from IRESS, Capital IQ, Bloomberg, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

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The selected companies have a variety of year ends although there is some consistency by geographical region. Year ends for the retail industry tend to shift slightly each year due to many companies operating on 52 week financial year. The latest reported financial year end for the selected companies are outlined below by primary geographic region:

- North America: all have February year ends;
- United Kingdom: Marks & Spencer Group plc ("Marks & Spencer") has a March year end while Debenhams plc ("Debenhams") has an August year end;
- Asia: Isetan Mitsukoshi Holdings Ltd ("Isetan") has a March year end, Lifestyle International Holdings Ltd ("Lifestyle") has a December year end while Takashimaya Co. Ltd ("Takashimaya") has a February year end;
- Africa: Woolworths Holdings Limited ("Woolworths") has a June year end;
- South America: Lojas Americanas SA ("Lojas Americanas") has a December year end;
- Australia: Harvey Norman Holdings Limited ("Harvey Norman"), JB Hi-fi Limited ("JB Hi-fi"), The Reject Shop Limited ("The Reject Shop") and Super Retail Group Limited ("Super Retail") have a June year end while the remaining Australian companies, including Myer Holdings Limited ("Myer"), have a July year end.

The data analysed for each company included the last two years' historical results plus the subsequent two forecast years. However, the earnings presented above represents an alignment of the financial data to a 26 July 2014 year end ("current year") and a 25 July 2015 year end ("forecast year") so as to be consistent with the year end of David Jones. While relatively crude, this alignment is arguably more useful for the purposes of analysis than leaving the data unadjusted.

A brief description of each company is set out below:

Macy's, Inc.

Macy's, Inc. ("Macy's") is an omni channel department store retailer operating under two well-known brands, Macy's and Bloomingdale's. Macy's has been operating department stores since 1830 and following transactions with Federated Department Stores Incorporated (1994) and The May Department Stores Company (2005) has developed to become the largest department store operator in the Unites States by market capitalisation. Targeting middle to upper income consumers, Macy's offers a wide range of goods, including apparel, handbags, jewellery, cosmetics, other fashion accessories and home furnishings. Macy's maintains an extensive range of private brands some of which are sold internationally, including Alfani, Bar III, Epic Threads, First Impressions, Hotel Collection, Style & Co and Tasso Elba. Occupying over 150 million square feet, Macy's operates 840 stores across 45 states, the District of Columbia, Guam and Puerto Rico. Of its 840 stores, 571 are owned (or owned subject to ground lease) while 269 are leased. Macy's has a credit card alliance with Citibank which offers customers both proprietary and non-proprietary credit. For the financial year ending 1 February 2014, Macy's reported revenue and EBIT of US$27.9 billion and US$2.8 billion, respectively.

Nordstrom, Inc.

Originally founded in 1901 as a retail shoes business, Nordstrom, Inc. ("Nordstrom") is now one of the leading up-market department stores in United States. Nordstrom offers high quality, branded and namesake private label merchandise with a focus on apparel and accessories, including shoes, handbags and cosmetics. Nordstrom also operates online through Nordstrom.com and HauteLook. Nordstrom's stores include 117 namesake full line stores, 142 off price "Nordstrom Rack" stores and one clearance store, "Last Chance". Recent store growth has been strong with total stores increasing by 35 (15%) over the past three years. Nordstrom's 260 stores operate across 35 states, 163 of which are leased (representing 36% of total square footage) with the remaining 97 owned, owned subject to ground lease or partly owned (representing 64% of total square footage). Nordstrom also has substantial private label credit card operations through its wholly owned federal savings bank, Nordstrom fsb. Nordstrom's private credit card activities generated EBIT of US$188 million in the financial year ending 1 February 2014 with net receivables totalling US$2,177 billion at year end. Nordstrom's revenue and EBIT for the financial year ending 1 February 2014 was US$12.5 billion and US$1.4 billion, respectively.

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Marks & Spencer Group plc

Marks & Spencer is one of the United Kingdom's leading retailers operating over 766 diversified clothing, food and home retail stores across the United Kingdom and more than 400 owned and franchised international stores across Europe, the Middle East and Asia. In November 2010, following difficult trading conditions and lower profits, Marks & Spencer announced a full strategic review with an objective to transform the business from a traditional British retailer to an international, multi-channel retailer. The immediate three year strategy involved spending an estimated £50 million (of which £43 million had been spent as at 28 September 2013) on modernising store fit outs, closing unprofitable sites, rationalising brands, accelerating multi-channel development and ramping up the international business. Nearly 90% of Marks & Spencer's revenues are currently generated from its United Kingdom operations, which are relatively evenly split between food (55%) clothing and homewares (45%), both of which are predominantly private label. Marks & Spencer generated revenue of £10.0 billion and EBIT of £0.8 billion in the financial year ending 30 March 2013.

Kohl's Corporation

Kohl's Corporation ("Kohl's") is family and value focused department store chain. Kohl's operates 1,158 stores across all 48 states of continental United States and Alaska and sells moderately priced apparel, accessories, cosmetics, footwear and homewares. Approximately half of all products sold by Kohl's are private label brands, including Croft and Barrow, Jumping Beans, SO and Sonoma Life + Style. These brands are generally priced at lower price points than other exclusive brands stocked in Kohl's stores, including Food Network, Jennifer Lopez, Marc Anthony and Simply Vera Vera Wang. Kohl's also has online operations through its website which offers materially more products than in-store. Kohl's generated revenue and EBIT of US$19.0 billion and US$1.7 billion, respectively, in the financial year ending 1 February 2014.

Lojas Americanas SA

Lojas Americanas is a multi-channel, competitively priced retailer based in Brazil. With a market capitalisation of BRL15.5 billion, Lojas Americanas is one of the largest department chains in the southern hemisphere. Lojas Americanas operates 856 stores (807,000 square metres) and sells a broad range of products, including clothing, cosmetics, electronics, homewares and food. For the financial year ending 31 December 2013, Lojas Americanas reported revenue of BRL13.4 billion and EBIT of BRL1.5 billion. Lojas Americanas has a strong growth profile, both in-store and through its e-commerce business, and this is reflected in its earnings multiples. Over the past 10 years, Lojas Americanas' store numbers have increased at a compound annual growth rate of more than 20%.

Woolworths Holdings Limited

Woolworths is a South African based, omni channel, up-market retailer with operations extending throughout Africa, the Middle East and, through its 88% majority shareholding in Country Road Limited, Australia. Listed on the Johannesburg Stock Exchange, Woolworths trades through more than 600 stores and offers a range of fashion, food, beauty and homeware products under the Woolworths brand and select South African and international brands. For the financial year ended 30 June 2013, Woolworths reported revenue of R35.4 billion and EBIT of R3.5 billion (after adjusting for associate and joint venture earnings). Woolworths' food segment is the largest contributor to group revenue (approximately 50%) although the clothing and general merchandise segment contributes around 50% of profit before tax. Through a joint venture with Barclays Africa Group, Woolworths also offers customers a range of financial services, including credit cards, personal loans and short-term insurance products.

Isetan Mitsukoshi Holdings Ltd

Formed through the merger of Isetan Co., Ltd and Mitsukoshi, Ltd in April 2008, Isetan is Japan's largest department store operator by market capitalisation. Isetan operates mainly in Japan, with a particular focus on Tokyo, but also has a presence in China, Malaysia, Singapore, Taiwan, Europe and the United States, mainly through smaller scale stores. Isetan has three flagship stores which contribute over two-thirds of net sales, Mitsukoshi Ginza, Mitsukoshi Nihombashi and Isetan Shinjuku, the latter of which recently underwent a major redevelopment. Isetan's department stores operations account for the vast majority (around 90%) of Isetan's net sales with retail and specialty stores and Isetan's real estate, credit and finance businesses comprising the

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remainder. With relatively small scale international operations outside of Japan and China, Isetan is understood to be planning an increased presence in Singapore and Malaysia.

Dillards, Inc.

Dillard's, Inc. ("Dillard's") is a mid-tier department store retailer based in United States. Operating 296 stores across 29 states and online, Dillard's sells fashion apparel, footwear, accessories, home furnishings, cosmetics and a broad range of other consumer goods. The majority of Dillard's stores are located in suburban malls or open air centres in the mid-west and southern states. Exclusive brands stocked include Antonio Melani, Gianni Bini, GB, Roundtree and Yorke and Daniel Cremieux. To complement its national brands, Dillard's offers a range of private label products with the aim of delivering higher quality goods at lower prices than its exclusive brands. Dillard's also has a private label credit card alliance with GE Consumer Finance which generated US$113 million of income for the financial year ending 1 February 2014. Approximately 90% of Dillard's stores are owned (or owned subject to ground lease) and store numbers have gradually declined by a total of 13 over the past four years. Dillard's revenue and EBIT for the financial year ending 1 February 2014 totalled US$6.7 billion and US$0.6 billion, respectively.

Lifestyle International Holdings Limited

Lifestyle is a Hong Kong based operator of middle to up-market department stores. Lifestyle operates two stores in Hong Kong under the SOGO brand, including the flagship store in Causeway Bay, the largest department store in Hong Kong, and four stores under the Jiuguang brand in mainland China. Over the past four years Lifestyle has experienced solid growth, partially driven by strong tourism in Hong Kong, with revenue and gross profit growing at compound annual growth rates of 12% and 14%, respectively. Lifestyle generated revenue and EBIT of HK$6.0 billion and HK$2.0 billion, respectively, the majority of which was driven by Lifestyle's Hong Kong stores which account for more than 70% of revenue and an even higher proportion of EBIT. Lifestyle's relatively high earnings multiples reflect its strong growth profile, high margins and low gearing.

Takashimaya Co., Ltd

Takashimaya is a department store retailer primarily operating in Japan. Through its 20 stores in Japan, two stores in China and store in Singapore, Takashimaya offers consumers a broad range of clothing apparel, home furnishings, food, jewellery and other accessories. With limited or no growth in Japanese store sales over the past four years, Takashimaya has revisited its core store strategies to improve sales capabilities across existing stores and accelerate the development of its omni channel offering. Takashimaya is also progressing plans to expand to Vietnam. For the financial year ending 28 February 2014, Takashimaya reported revenue of ¥904.2 billion and EBIT of ¥29.3 billion.

Hudson's Bay Company

Originally founded in 1670, Hudson's Bay Company ("Hudson's Bay") is North America's longest continually operating company. Based in Canada, Hudson's Bay operates department stores throughout Canada and the United States under the Hudson's Bay, Home Outfitters, Lord and Taylor, Saks and Saks Fifth Avenue OFF 5TH brands. After being acquired in 2006 by NRDC Equity Partners, owner of Lord and Taylor, Hudson's Bay has been repositioned towards the mid to upper end of the market through the gradual disposal and wind-down of its Zeller and Fields discount stores and the acquisition of Saks in 2013. Hudson's Bay offers consumers a wide selection of branded fashion, beauty products, home furnishings, jewellery and accessories through 326 stores and outlets. With the acquisition of Saks completing in November 2013, Hudson's Bay's historical earnings only reflect one quarter of consolidated trading resulting in its current year multiples not being meaningful. Hudson's Bay has a valuable real estate portfolio (net book value of approximately C$2.9 billion as at 1 February 2014) which contributes to it trading at multiples higher than its peers.

Debenhams plc

Debenhams is multi-channel department store retailer based in the United Kingdom. Debenhams operates 240 stores across the United Kingdom, the Republic of Ireland, Denmark and over 20 other countries, including its international franchise stores. Through its exclusive 'Designers at Debenhams' portfolio, Debenhams sells a wide range of designer goods, including Ted Baker, Jeff Banks, Frost French, Jasper Conran and Ben De Lisi, in addition to international brands. Following difficult trading conditions throughout the United Kingdom,

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Debenhams has refocused on a four pillar strategy with a view to delivering a more compelling customer proposition, increasing product availability and choice, driving better returns from United Kingdom stores and accelerating the brand internationally. Increased focus has also been directed to Debenham's online operations which have grown strongly to represent around 15% of sales. For the financial year ended 31 August 2013, Debenhams reported revenue of £2.8 billion and EBIT of £0.2 billion.

Myer Holdings Limited

Myer is an Australian mid-tier department store retailer. Generating revenue of A$3.1 billion and EBIT of A$0.2 billion for the financial year ending 27 July 2013, Myer operates a network of 66 stores across the country (although does not own its flagship central business district stores) and expects to open a further seven stores (excluding replacement stores) by the end of 2017. Myer maintains a portfolio of recognised national and international brands as well as more than 60 brands owned or licenced exclusively to Myer, including Basque, Blaq, Piper, Bauhaus, Miss Shop and Regatta. Despite being high growth, Myer's online operations account for only a very small proportion of total sales. Management is targeting online penetration of 10% over the medium term. Myer operates a tiered loyalty program, MYER one, and has a credit card affiliation with Visa through a partnership with GE Money. Heightened pressure from discount department stores, international and online retailers have contributed to a decline in Myer profitability and market share over recent years and this is reflected in Myer's trading multiples.

Harvey Norman Holdings Limited

Harvey Norman is a holding company for integrated franchised and non-franchised retail, property and financial services operations. In Australia over 200 franchised businesses are licensed to operate under the Harvey Norman, Domayne and Joyce Mayne brands selling primarily furniture, electrical goods, computers, telecommunications, homewares and furnishings. Harvey Norman also operates wholly owned stores in New Zealand, Ireland, Northern Ireland, Slovenia, and Croatia and holds a controlling interest in Pertama Holdings Limited which operates in Singapore and Malaysia. Harvey Norman has limited comparability to the activities of David Jones but is included in the analysis as a major retailing business in Australia.

Super Retail Group

Super Retail is a diversified retail company operating across the automotive, leisure and sports sectors. With over 600 stores around Australia and New Zealand, Super Retail's operating businesses include Supercheap Auto, Goldcross Cycles, BCF (Boating Camping Fishing), FCO (Fishing Camping Outdoors), Ray's Outdoors, Rebel, Amart Sports and Workout World. Super Retail is expected to deliver double digit earnings growth over the medium term mainly due to operating and supply chain efficiencies, store growth and a strong management team.

JB Hi-Fi Limited

Operating over 180 stores in Australia and New Zealand and online, JB Hi-Fi is a discount retailer of primarily branded home entertainment and electronics. Key products sold include audio visual equipment, computers, games, CDs and DVDs. Through its 'HOME' store concept, JB Hi-Fi has also recently expanded to sell whitegoods and other home appliances. Although online sales growth has been strong, nearly 30% last financial year, it only represents around 2% of overall sales with the majority of growth driven through store sales. JB Hi-Fi store numbers have increased year on year for over ten years and growth is expected to continue with management targeting 214 stores over the medium term.

Premier Investments Limited

Established as an investment company to maximise shareholder capital returns, Premier Investments Limited ("Premier Investments") currently operates speciality fashion chains across Australia, New Zealand, Singapore and, through a joint venture entity, South Africa. Through its acquisition of Just Group Limited in 2008, Premier owns the brands Just Jeans, Jay Jays, Portmans, Jacqui E, Peter Alexander, Dotti and Smiggle. Premier Investments is currently trading at the top end of its discretionary retail peers reflecting its robust half year results (like-for-like sales growth for all brands except Jay Jays), the growth potential for Peter Alexander and Smiggle and a strong balance sheet.

Kathmandu Holdings Limited

Kathmandu Holdings Limited ("Kathmandu") is a vertically integrated retailer focused on travel and adventure clothing and equipment. Kathmandu operates 90 stores in Australia, 45 stores in New Zealand and 4 stores in United Kingdom and an online store which accounts for around 5% of sales. As part of its most recent half yearly results, despite a difficult retail environment, Kathmandu reported positive like-for-like sales growth of more than 5% and underlying margin improvements.

The Reject Shop Limited

The Reject Shop is a discount variety retailer operating more than 300 stores around Australia. The Reject Shop sells a broad range of general consumer merchandise, including homewares, personal care products, toiletries, cosmetics, basic furniture, household cleaning products, kitchenware, confectionery and snack food. The Reject Shop's earnings multiples reflect its tight margins and recent underperformance.

OrotonGroup Limited

OrotonGroup Limited ("Oroton") is wholesale and retail supplier of leather goods, fashion apparel and related accessories under the Oroton brand. In addition to managing the Oroton brand, Oroton's operations have extended to include the distribution of other international brands, including GAP and Brooks Brothers. Until June 2013, Oroton was the exclusive licensee for the Ralph Lauren apparel brand. Oroton operates 75 Oroton stores in Australia, New Zealand, Singapore and Malaysia, 20 Australian GAP and Brooks Brothers stores and has recently established three new Oroton stores in China, Hong Kong and Dubai.

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C

ANNEXURE C
SCHEME IMPLEMENTATION DEED

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GILBERT TOBIN

LAWYERS

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Scheme Implementation Deed

Vela Investments Pty Limited

Woolworths Holdings Limited

David Jones Limited

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Contents

		Page
1	Defined terms and interpretation	1
2	Agreement to proceed with Transaction	1
3	Conditions precedent	1
4	Scheme	5
5	Implementation	6
6	Public announcements	13
7	Board support of Transaction	14
8	Exclusivity	15
9	Break Fee	16
10	Cost reimbursement	18
11	Representations and Warranties	19
12	Releases	23
13	Termination	25
14	Confidentiality	26
15	Duty, costs and expenses	27
16	GST	27
17	Guarantee by Bidder's Guarantor	27
18	General	29
Schedule 1 — Dictionary		33
Schedule 2 — Target capital structure		44
Execution page		45

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Date: 9 April 2014

Parties

1 **Vela Investments Pty Limited** ACN 168 920 447 of Level 37, 2 Park Street, Sydney NSW 2000, Australia (**Bidder**)

2 **Woolworths Holdings Limited** (Registration Number 1929/001986/06) of 99 Longmarket Street, Cape Town 8001, South Africa (**Bidder's Guarantor**)

3 **David Jones Limited** ACN 000 074 573 of 86-108 Castlereagh Street, Sydney New South Wales 2000, Australia (**Target**)

Background

A Target has agreed to propose a members' scheme of arrangement pursuant to which Bidder will acquire all the Scheme Shares, and the Target and the Bidder have agreed to implement the Scheme on the terms and conditions of this deed.

B Bidder has agreed to assist Target in proposing the Scheme.

C Bidder's Guarantor has agreed to guarantee the Bidder's obligations under this deed.

The parties agree

1 Defined terms and interpretation

1.1 Defined terms

A term or expression which is defined in the dictionary in Schedule 1 has the meaning given to it in the dictionary.

1.2 Interpretation

The interpretation clause in Schedule 1 sets out rules of interpretation for this deed.

2 Agreement to proceed with Transaction

(a) Target agrees to propose the Scheme on and subject to the terms of this deed.

(b) Bidder agrees to assist Target in proposing the Scheme on and subject to the terms of this deed.

3 Conditions precedent

3.1 Conditions precedent

Subject to this clause 3, the Scheme will not become Effective until and unless the following conditions precedent are satisfied or waived in accordance with clause 3.3.

(a) (**SARB Approval**) Before 8:00am on the Second Court Date, Bidder receives all approvals, consents and authorisations as required in connection with the Transaction from the South African Reserve Bank on terms acceptable to Bidder

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(acting reasonably), and none of those approvals, consents and authorisations are withdrawn, cancelled or revoked.

(b) (**Bidder shareholder approval**) Before 8:00am on the Second Court Date, Shareholders of Bidder's Guarantor approve:

(i) the Transaction by the required majority, being an ordinary majority of 50% plus one vote; and

(ii) resolutions relating to the Rights Offer and all related matters by the required majority, being a special majority of 75% plus one vote,

of the total number of voting rights exercised by shareholders of Bidder's Guarantor present and voting (either in person or by proxy), at the Bidder's Shareholder Meeting.

(c) (**FIRB**) Before 8:00am on the Second Court Date, either:

(i) The Treasurer (or the Treasurer's delegate) has provided a notice in writing to the effect that there are no objections to the acquisition of all the Scheme Shares by Bidder under the Transaction in terms of the Commonwealth Government's foreign investment policy, either unconditionally or on terms that are acceptable to Bidder acting reasonably; or

(ii) The Treasurer has become precluded by lapse of time from making an order in respect of the Transaction under the *Foreign Acquisition and Takeovers Act 1975 (Cth)*.

(d) (**Court approval**) The Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act.

(e) (**Target Shareholder approval**) Target Shareholders approve the Scheme at the Scheme Meeting by the requisite majorities under section 411(4)(a) of the Corporations Act.

(f) (**Restraints**) Before and as at 8:00am on the Second Court Date:

(i) there is not in effect any preliminary or permanent injunction or other preliminary or final decision, order or decree issued by any court of competent jurisdiction or by any Government Agency, nor is there in effect any other legal restraint or prohibition; and

(ii) no action or investigation is announced or commenced by any Government Agency,

which restrains, prohibits or otherwise materially adversely impedes or impacts upon (or could reasonably be expected to restrain, prohibit or otherwise materially adversely impede or impact upon) the completion of the Transaction.

(g) (**Material Adverse Change**) No Material Adverse Change occurs between the date of this deed and 8:00am on the Second Court Date.

(h) (**Prescribed Occurrence**) No Prescribed Occurrence occurs between the date of this deed and 8:00am on the Second Court Date.

(i) (**No Force Majeure Event**) No Force Majeure Event occurs between the date of this deed and 8:00am on the Second Court Date.

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3.2 Reasonable endeavours

(a) Target must use its reasonable endeavours to procure that the conditions precedent in clauses 3.1(e), 3.1(g) and 3.1(h) are satisfied as soon as possible after the date of this deed.

(b) Bidder must use its reasonable endeavours to procure that the conditions precedent in clauses 3.1(a), 3.1(b), 3.1(c) and 3.1(i) are satisfied as soon as possible after the date of this deed.

(c) The parties must each use reasonable endeavours to procure that:

(i) the conditions precedent in clauses 3.1(d) and 3.1(f) are satisfied; and

(ii) there is no occurrence or non-occurrence within their control or the control of any of their related bodies corporate that prevents, or would be reasonably likely to prevent, the satisfaction of any condition precedent.

(d) Without limiting clause 3.2(c) but subject to clause 3.2(e), each party must:

(i) keep the other party informed of the progress towards satisfaction of the conditions precedent; and

(ii) except to the extent prohibited by a Government Agency:

(A) promptly notify the other party of all communications between it and a Government Agency in connection with any approval or consent required pursuant to a condition precedent in clause 3.1 or any action taken or proposed by, or any enquiries made by, a Government Agency in relation to the Transaction (**Regulatory Matter**);

(B) promptly provide the other party with copies of all communications referred to in clause 3.2(d)(ii)(A) (where written);

(C) before sending any submission or correspondence to a Government Agency relating to any Regulatory Matter, consult with the other party in relation to, and provide the other party with a draft copy of, such submission or correspondence; and

(D) respond to reasonable requests for information that relate to any Regulatory Matter, whether made by the other party, a Government Agency or any other person, at the earliest practicable time.

(e) Before providing any document or other information to the other party (in this clause 3.2(e), the **Recipient**) pursuant to clause 3.2(d), a party (in this clause 3.2(e), the **Discloser**) may redact any part of that document, or not disclose any part of that information, which contains or is confidential, non-public information (**Sensitive Confidential Information**) if the Discloser reasonably believes that:

(i) the Sensitive Confidential Information is of a commercially sensitive nature; or

(ii) the disclosure of the Sensitive Confidential Information to the Recipient would be damaging to the commercial or legal interests of the Discloser or any of its related bodies corporate,

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and may provide the document or disclose the information to the Recipient with any Sensitive Confidential Information redacted or excluded, provided that, where Sensitive Confidential Information is so redacted or excluded, the Discloser must provide the Recipient with as much detail about the relevant communication, submission or correspondence (and any other relevant circumstances) as is reasonably possible without disclosing Sensitive Confidential Information.

3.3 Waiver of conditions precedent

(a) The conditions precedent in clauses 3.1(c), 3.1(d) and 3.1(e) cannot be waived.

(b) The condition precedent in clause 3.1(f) is for the benefit of Bidder and Target and any breach or non-fulfilment of that condition precedent may only be waived with the written consent of both Bidder and Target (in each party's absolute discretion).

(c) The conditions precedent in clauses 3.1(a), 3.1(b), 3.1(g), 3.1(h), and 3.1(i) are for the sole benefit of Bidder and any breach or non-fulfilment of any of these conditions precedent may only be waived with the written consent of Bidder.

(d) If a party waives the breach or non-fulfilment of a condition precedent, such waiver will not prevent that party from suing the other party for any breach of this deed that resulted in the breach or non-fulfilment of the condition precedent.

(e) Waiver of breach or non-fulfilment of a condition precedent does not constitute:

(i) a waiver of breach or non-fulfilment of any other condition precedent resulting from the same event; or

(ii) a waiver of breach or non-fulfilment of that condition precedent resulting from any other event.

3.4 Termination on failure of condition precedent

(a) If:

(i) there is a breach or non-fulfilment of a condition precedent and:

(A) the breach or non-fulfilment is not waived in accordance with clause 3.3 or cannot be waived because of clause 3.3(a); or

(B) each party having the benefit of that condition precedent confirms in writing to the other party that it will not waive the breach or non-fulfilment in accordance with clause 3.3; or

(ii) a condition precedent becomes incapable of satisfaction and:

(A) the breach or non-fulfilment of that condition precedent that has occurred or would otherwise occur is not waived in accordance with clause 3.3; or

(B) each party having the benefit of that condition precedent confirms in writing to the other party that it will not waive the breach or non-fulfilment of that condition precedent that has occurred or would otherwise occur in accordance with clause 3.3; or

(iii) the Scheme has not become Effective by the End Date,

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then either party may give the other party written notice (**Consultation Notice**) within 10 Business Days after the relevant event (**Termination Event**). The parties must then consult in good faith with a view to determining whether they can reach agreement with respect to:

(iv) an extension of the time for satisfaction of the relevant condition precedent or an extension of the End Date (as the case may be); or

(v) the Transaction proceeding by way of alternative means or methods.

If the parties are unable to reach such agreement within 10 Business Days after a Consultation Notice is given, or if a Consultation Notice is not given within 10 Business Days after a Termination Event, either party (in this clause 3.4, the **Terminating Party**) may terminate this deed by giving written notice (**Termination Notice**) to the other party, provided that:

(vi) if the basis upon which the Terminating Party is seeking to terminate this deed is the occurrence of an event described in clause 3.4(a)(i) or 3.4(a)(ii), the Terminating Party has the benefit of the relevant condition precedent or the condition precedent is one referred to in clause 3.3(a)); and

(vii) there has been no failure by the Terminating Party to comply with its obligations under this deed, where that failure directly and materially contributed to the circumstances forming the basis upon which the Consultation Notice was given.

Where a Termination Notice is validly given under this clause 3.4(a), this deed will terminate with immediate effect and clause 13.5 will apply.

3.5 Certain notices

Each party must promptly notify the other party in writing if:

(a) a condition precedent has been satisfied, in which case that party must comply with any reasonable request for evidence of such satisfaction made by the other party;

(b) there is a breach or non-fulfilment of a condition precedent;

(c) it becomes aware of any fact, matter or circumstance that has resulted, will result or is reasonably likely to result in:

(i) a condition precedent becoming incapable of satisfaction or otherwise not being satisfied in accordance with its terms; or

(ii) a material breach of this deed by that party.

4 Scheme

4.1 Scheme

(a) Target agrees to propose the Scheme on and subject to the terms of this deed.

(b) Target must not consent to any modification of, or amendment to, the Scheme, or to the making or imposition by a court of any condition in respect of the Scheme, without the prior written consent of Bidder (such consent not to be unreasonably withheld).

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4.2 Consideration

(a) Each Scheme Shareholder will be entitled to receive the Consideration under the Scheme, in respect of each Scheme Share held by that Scheme Shareholder.

(b) Bidder covenants in favour of Target that, in consideration of the transfer to Bidder of all the Scheme Shares held by a Scheme Shareholder under the Scheme, on the Implementation Date it will:

(i) accept that transfer; and

(ii) provide, or procure the provision of, the Consideration to each Scheme Shareholder for each Scheme Share held by the relevant Scheme Shareholder,

in each case in accordance with the terms of the Scheme.

(c) Where the calculation of the Consideration to be provided to a particular Scheme Shareholder would result in the Scheme Shareholder becoming entitled to a fraction of a cent, the fractional entitlement will be rounded up to the nearest whole cent.

4.3 Treatment of Performance Rights and other payment entitlements under the Target STIP

Target must give effect to the treatment of Performance Rights and other payment entitlements (in the case of the Target STIP) in the manner disclosed to Bidder prior to the date of this deed in the Disclosure Materials, with any vesting or payment to be made subject to the Scheme becoming Effective.

5 Implementation

5.1 Target obligations

Target must, acting at all times in good faith, take all steps reasonably necessary to implement the Scheme in accordance with the Timetable and otherwise as soon as practicable and on and subject to the terms of this deed. Without limiting the foregoing, Target must:

(a) (**Independent Expert**) as soon as reasonably practicable after the date of this deed, appoint the Independent Expert and provide all assistance and information reasonably requested by the Independent Expert in connection with the preparation of the Independent Expert's Report (and any update to any such report);

(b) (**preparation of Scheme Booklet**)

(i) subject to clause 5.2(a), prepare the Scheme Booklet (other than the Bidder Information and the Independent Expert's Report) in accordance with all applicable laws, including the Corporations Act, Corporations Regulations, RG 60 and the Listing Rules; and

(ii) provide Bidder with drafts of the Scheme Booklet and the factual information sections relating to Bidder in the Independent Expert's Report, in a timely manner and, acting reasonably and in good faith, consider (and, where applicable, promptly provide to the Independent Expert in writing) all

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reasonable comments from Bidder and its Representatives on those drafts, provided that such comments are provided to Target in a timely manner;

(c) (**lodgement of Regulator's Drafts**)

(i) no later than 14 days before the First Court Date, provide an advanced draft of the Scheme Booklet (**Regulator's Draft**) to ASIC for its review for the purposes of section 411(2) of the Corporations Act, and provide a copy of the Regulator's Draft to Bidder immediately thereafter; and

(ii) keep Bidder reasonably informed of any material issues raised by ASIC in relation to the Regulator's Draft and, where practical to do so, consult with Bidder in good faith prior to taking any steps or actions to address any such material issues (provided that, where such issues relate to Bidder Information, Target must not take any steps to address them without Bidder's prior written consent, not to be unreasonably withheld);

(d) (**no objection statement**) apply to ASIC for a statement under section 411(17)(b) of the Corporations Act stating that ASIC has no objection to the Scheme;

(e) (**First Court Hearing**) apply to the Court for orders under section 411(1) of the Corporations Act directing Target to convene the Scheme Meeting;

(f) (**due diligence and verification**) undertake appropriate due diligence and verification processes in relation to the Target Information, and, once such processes have been completed, provide written confirmation to Bidder of the completion of such processes;

(g) (**approval and registration of Scheme Booklet**) arrange for registration of the Scheme Booklet with ASIC in accordance with the Corporations Act;

(h) (**Scheme Meeting**) as soon as reasonably practicable following registration of the Scheme Booklet by ASIC, despatch the Scheme Booklet to Target Shareholders, and convene and hold the Scheme Meeting in accordance with the orders made by the Court at the First Court Hearing;

(i) (**supplementary disclosure**) if, after despatch of the Scheme Booklet, it becomes aware:

(i) that information included in the Scheme Booklet is or has become misleading or deceptive in any material respect (whether by omission or otherwise); or

(ii) of information that is required to be disclosed to Target Shareholders under any applicable law (including RG 60) but was not included in the Scheme Booklet,

promptly consult with Bidder in good faith as to the need for, and form of, any supplementary disclosure to Target Shareholders, and make any such disclosure that it considers reasonably necessary in the circumstances, having regard to applicable laws (including RG 60);

(j) (**Bidder Category 1 and Rights Offer Circulars**) as soon as reasonably possible provide any assistance or information requested by Bidder Guarantor or its Representatives concerning the business and affairs of Target as may be reasonably required in connection with the preparation of the Bidder Category 1

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Circular and the Bidder Rights Offer Circular (including any supplementary disclosure to Bidder Shareholders);

(k) (**access to information for underwriter**) provide the Rights Offer Underwriter with reasonable (but non-disruptive) access to Target's management (during normal business hours and on reasonable notice) and information in respect of Target that the Rights Offer Underwriter and its Representatives reasonably requires to conduct due diligence enquiries and to procure, so far as it is able to do so, such opinions, letters and reports required by the Rights Offer Underwriter in line with international and South-African market practice with respect to a rights offer that includes an offering to qualified institutional buyers which is exempt from registration under the Securities Act and which is registered with the JSE, provided that:

(i) all reasonable adviser, consultant and other third party costs incurred by Target and its Representatives in relation to clause 5.1(k) will be met by Bidder (or Bidder's Guarantor) as applicable, provided that Target provides reasonable evidence to Bidder to substantiate such costs; and

(ii) Target's Directors, officers and management will not be required to provide, up to and including on the Implementation Date, any form of representation, warranty, opinion, certification or sign-off in relation to or in connection with the Rights Offer for the purposes of clause 5.1(k);

(l) (**conditions precedent certificate**) at the Second Court Hearing, provide to the Court (through its counsel):

(i) a certificate confirming (in respect of matters within its knowledge) whether or not the conditions precedent (other than the conditions precedent in clause 3.1(d)) have been satisfied or waived in accordance with clause 3, a draft of which certificate must be provided to Bidder by 5:00pm on the Business Day prior to the Second Court Date; and

(ii) any certificate provided to it by Bidder pursuant to clause 5.2(g);

(m) (**Second Court Hearing**) subject to the conditions precedent (other than the condition precedent in clause 3.1(a) being satisfied or waived in accordance with clause 3, apply to the Court for orders under section 411(4)(b) of the Corporations Act approving the Scheme;

(n) (**Court Documents**) prepare the Court Documents, provide drafts of those documents to Bidder in a timely manner and, acting reasonably and in good faith, take into account all reasonable comments from Bidder and its Representatives on those drafts, provided that such comments are provided in a timely manner;

(o) (**Bidder representation at Court Hearings**) allow, and not oppose, any application by Bidder for leave of the Court to be represented by counsel at a Court Hearing;

(p) (**lodgement of Court order**) for the purposes of section 411(10) of the Corporations Act, lodge with ASIC an office copy of the orders made by the Court under section 411(4)(b) of the Corporations Act approving the Scheme before 5:00pm on the Business Day following the day on which it receives such office copy;

(q) (**quotation of Target Shares and ASX listing**) apply to ASX to have:

(i) trading in Target Shares suspended from the close of trading on the Effective Date; and

(ii) Target removed from the official list of ASX, and quotation of Target Shares on the ASX terminated, with effect on and from the close of trading on the Trading Day immediately following, or shortly after, the Implementation Date,

and not do anything to cause any of these things to happen before the time specified in this clause 5.1(q);

(r) (**information**) provide Bidder with such information as Bidder reasonably requests and which is necessary for the purpose of soliciting votes in favour of the Scheme;

(s) (**compliance with laws**) do everything reasonably within its power to ensure that the Transaction is effected in accordance with all applicable laws, regulations and policy; and

(t) (**implementation**) if the Scheme become Effective, do all things contemplated of it under the Scheme and all other things (if any) necessary for the Target to do to lawfully give effect to the Scheme.

5.2 Bidder obligations

Bidder must, acting at all times in good faith, take all steps reasonably necessary to implement the Scheme in accordance with the Timetable and otherwise as soon as practicable and on and subject to the terms of this deed. Without limiting the foregoing, Bidder must (to the fullest extent applicable):

(a) (**prepare Bidder Information**)

(i) as soon as reasonably practicable after the date of this deed, prepare the Bidder Information for inclusion in the Scheme Booklet in accordance with all applicable laws, including the Corporations Act, Corporations Regulations, RG 60 and the Listing Rules; and

(ii) provide Target with drafts of the Bidder Information in a timely manner and, acting reasonably and in good faith, take into account all reasonable comments from Target and its Representatives on those drafts, provided that such comments are provided to Target in a timely manner;

(b) (**assistance with Scheme Booklet and Court Documents**) provide any assistance or information reasonably requested by Target or its Representatives in connection with the preparation of the Scheme Booklet (including any supplementary disclosure to Target Shareholders) or any Court Documents;

(c) (**Independent Expert's Report**) subject to the Independent Expert agreeing to reasonable confidentiality restrictions, provide any assistance or information reasonably requested by Target or its Representatives, or by the Independent Expert, in connection with the preparation of the Independent Expert's Report (and any update to any such report);

(d) (**due diligence and verification**) undertake appropriate due diligence and verification processes in relation to the Bidder Information, and, once those processes have been completed, provide written confirmation to Target of the completion such processes;

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(e) (**confirmation of Bidder Information**) promptly after Target requests that it does so, confirm in writing to Target that:

(i) it consents to the inclusion of the Bidder Information in the Scheme Booklet, in the form and context in which the Bidder Information appears; and

(ii) the Bidder Information in the Scheme Booklet is not misleading or deceptive in any material respect (whether by omission or otherwise), and the inclusion of such Bidder Information, in that form and context, has been approved by the Bidder Board;

(f) (**update Bidder Information**) promptly advise Target in writing if it becomes aware:

(i) of information which should have been but was not included in the Bidder Information in the Scheme Booklet, and promptly provide Target with the omitted information; or

(ii) that the Bidder Information in the Scheme Booklet is misleading or deceptive in any material respect (whether by omission or otherwise), and promptly provide Target with any information required to correct the misleading or deceptive statements;

(g) (**conditions precedent certificate**) before 8:00 am on the Second Court Date, provide to Target for provision to the Court at the Second Court Hearing a certificate confirming (in respect of matters within its knowledge) whether or not the conditions precedent (other than the condition precedent in clause 3.1(d) have been satisfied or waived in accordance with clause 3, a draft of which certificate must be provided to Target by 5:00pm on the Business Day prior to the Second Court Date;

(h) (**representation at Second Court Hearing**) ensure that it is represented by counsel at the Second Court Hearing, at which through its counsel, Bidder will undertake (if requested by the Court) to do all such things and take all such steps within its power as are reasonably necessary in order to ensure the fulfilment of its obligations under this deed, the Scheme and to, so far as reasonably practicable, ensure that the Court makes an order under section 411(4)(b) of the Corporations Act approving the Scheme;

(i) (**Consideration**) if the Scheme becomes Effective, pay the Consideration in the manner and in the amount contemplated by clause 4 of this deed, the terms of the Scheme and the Deed Poll (and Target holds this promise on trust for Target Shareholders);

(j) (**Deed Poll**) before 5:00pm on the Business Day prior to the First Court Date, enter into the Deed Poll, and, if the Scheme becomes Effective, comply with its obligations under the Deed Poll; and

(k) (**compliance with laws**) do everything reasonably within its power to ensure that the Transaction is effected in accordance with all applicable laws, regulations and policy; and

(l) (**financing**) do everything necessary to ensure that the Bidder Facility Agreements remain in force, that all conditions precedent to draw down of funds under the Bidder Facility Agreements have been satisfied and to hold the proceeds of the financing to the extent required to pay the Consideration to the Scheme Shareholders on the Implementation Date.

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5.3 Bidder's Guarantor obligations

(a) (**Bidder Category 1 Circular**) Bidder's Guarantor must take all necessary steps to put the resolution required by clause 3.1(b) to its shareholders as soon as reasonably practicable but no later than 30 June 2014, including to:

(i) prepare the Bidder Category 1 Circular in accordance with all applicable laws and regulations;

(ii) ensure the Bidder Category 1 Circular includes statements that the Board of Bidder's Guarantor recommends that its shareholders vote in favour of the Transaction and the Rights Offer and that each Bidder's Guarantor director intends to vote all Bidder's Guarantor shares in which he or she has an interest, in favour of the Transaction and the Rights Offer;

(iii) provide Target with an advanced draft of the Bidder Category 1 Circular in a timely manner and, acting reasonably and in good faith, consider all reasonable comments from Target and its Representatives on those drafts, provided that such comments are provided to Bidder or Bidder's Guarantor in a timely manner;

(iv) provide the Bidder Category 1 Circular to JSE as soon as practicable after the date of this deed, and provide a copy of the draft Bidder Category 1 Circular as provided to JSE, to Target immediately thereafter;

(v) keep Target reasonably informed of any material issues raised by JSE in relation to information provided to Bidder or Bidder's Guarantor by Target in the draft Bidder Category 1 Circular and any steps or actions which Bidder's Guarantor has taken or intends to take to address any such material issues (provided that, where such issues relate to any information in respect of Target, Bidder's Guarantor must not amend that information without Target's prior written consent, not to be unreasonably withheld);

(b) (**Bidder's Shareholder Meeting**) as soon as possible following approval by JSE of the Bidder Category 1 Circular (if any), Bidder's Guarantor must despatch the Bidder Category 1 Circular to Bidder Guarantor's shareholders, and convene and hold the Bidder's Shareholder Meeting; and

(c) (**Deed Poll**) before 5:00pm on the Business Day prior to the First Court Date, enter into the Deed Poll, and, if the Scheme becomes Effective, comply with its obligations under the Deed Poll.

5.4 Scheme Booklet

(a) If the parties are unable to agree on the form or content of a particular part of the Scheme Booklet, then:

(i) if the relevant part of the Scheme Booklet is Bidder Information, Target will make such amendments to that part of the Scheme Booklet as required by Bidder (acting reasonably and in good faith); and

(ii) in any other case, Target (acting reasonably and in good faith) will decide the form and content of that part of the Scheme Booklet.

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(b) The parties agree that the Scheme Booklet will contain a responsibility statement to the effect that:

(i) Target is responsible for the Target Information contained in the Scheme Booklet;

(ii) Bidder is responsible for the Bidder Information contained in the Scheme Booklet; and

(iii) the Independent Expert is responsible for the Independent Expert's Report.

5.5 Conduct of business

(a) Subject to clause 5.5(b), from the date of this deed up to and including the Implementation Date, Target must:

(i) ensure that the business of the Target Group is conducted:

(A) in the usual and ordinary course;

(B) in a manner generally consistent with the manner in which such business has been conducted in the 12 months prior to the date of this deed; and

(C) in accordance with all applicable laws in all material respects;

(ii) not, and must ensure that its Related Bodies Corporate do not, other than in the ordinary course of business:

(A) settle any legal proceedings, claim, investigation, arbitration or other like proceeding where the settlement amount payable by any entity within the Target Group exceeds $5,000,000;

(B) do or cause to be done, or fail to do or cause not to be done, anything that would or may result in the Scheme not being implemented or being implemented otherwise than in accordance with the Timetable and the terms of this deed; or

(C) authorise, commit or agree to do any of the matters set out above;

(iii) make reasonable endeavours to:

(A) retain the services of the directors, officers and Relevant Employees of the Target Group; and

(B) maintain and preserve the Target Group's relationships with joint venturers, customers, suppliers, investors, Government Agencies, licensors, licensees and others with whom the Target Group has business dealings;

(iv) ensure that no Prescribed Occurrence occurs; and

(v) ensure that the Target Group does not enter into any lines of business which are different to the Existing Business Lines.

(b) Nothing in clause 5.5(a) restricts the ability of Target to take any action which:

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(i) is required or permitted by this deed or a Scheme;

(ii) has been fairly disclosed to Bidder or in any announcement to or filing with ASX or ASIC before the date of this deed;

(iii) has been agreed to in writing by Bidder; or

(iv) is conducted in the ordinary course of business by the Target.

(c) In this deed, unless the context requires otherwise, references to the business or assets of the Target Group are to that business or those assets taken as a whole.

(d) For the avoidance of doubt, nothing in this clause 5.5 restricts the ability of Target to respond to a Competing Proposal in accordance with clause 8.

5.6 Access

From the date upon which condition 3.1(b) is satisfied or waived until the Implementation Date, Target must use reasonable endeavours to procure that Bidder is provided with reasonable, non-disruptive access during normal business hours and on reasonable notice to information, premises and senior executives of any member of the Target Group, where Bidder requests such access for the purposes of:

(a) implementation of the Transaction; or

(b) obtaining an understanding, or furthering its understanding, of the Target Group or its business or assets in order to allow Bidder to develop, finalise and implement its plans for the Target Group following implementation of the Transaction,

provided that compliance with any such request would not, in the reasonable opinion of Target (acting in good faith), result in undue disruption to the Target Group's business.

5.7 Resignation of directors

Subject to provision of the Consideration in accordance with clause 4.2, Target must procure that, with effect on and from the Implementation Date:

(a) those persons nominated by Bidder are appointed to the Target Board and the boards of other members of the Target Group, provided that:

(i) such persons sign consents to act as a director of the relevant member(s) of the Target Group; and

(ii) such consents to act are provided to Target before the Implementation Date; and

(b) those Target Directors and directors of other members of the Target Group, as nominated by Bidder, resign as a director of the relevant member(s) of the Target Group (provided that nothing in this clause 5.7(b) requires any such director to forego any rights they may have under any deed of access and indemnity or policy of directors and officers insurance).

6 Public announcements

(a) Immediately after execution of this deed, each of Target and Bidder must release the Agreed Public Announcement.

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(b) Subject to clause 6(c), before making any public announcement in respect of the Transaction (whether through the ASX, JSE stock exchange news service or otherwise), a party must provide the other party with a draft copy of such public announcement as soon as reasonably practicable before it is proposed that such public announcement is made, and, where the proposed public announcement relates or refers to the Transaction (or may have a material effect on the Transaction or any aspect of it), must give the other party a reasonable opportunity to comment on the form and content of the draft announcement and must take into account all reasonable comments from that party and its Representatives on the draft.

(c) A party will only be required to comply with clause 6(b) if and to the extent that compliance would not, in the reasonable opinion of that party, be likely to result in that party breaching its continuous disclosure or similar obligations.

7 Board support of Transaction

7.1 Confirmation of Recommendations and Voting Intentions

Target represents and warrants to Bidder that each Target Director has confirmed (by way of a unanimous resolution of the Target Board) that:

(a) his or her recommendation in respect of the Scheme is that Target Shareholders vote in favour of the Scheme at the Scheme Meeting (**Recommendation**); and

(b) he or she intends to vote, or cause to be voted all Target Shares in which he or she has a Relevant Interest in favour of the Scheme at the Scheme Meeting (**Voting Intention**),

in each case in the absence of:

(c) a Superior Proposal; or

(d) the Independent Expert concluding in the Independent Expert's Report (or any update or variation to that report) that the Transaction is any one or more of the following: not in the best interests of, not fair, or not reasonable, to Target Shareholders.

7.2 Maintenance of Recommendations and Voting Intentions

(a) Target must use its reasonable endeavours to ensure that no Target Director withdraws, changes or modifies a Recommendation or Voting Intention unless:

(i) a Superior Proposal is made; or

(ii) the Independent Expert concludes in the Independent Expert's Report (or any update or variation to that report) that the Transaction is any one or more of the following: not in the best interests of, not fair, or not reasonable, to Target Shareholders.

(b) Subject to a Target Director withdrawing or changing a Recommendation or Voting Intention where clause 7.2(a) applies, Target must ensure that:

(i) the Scheme Booklet includes statements to the effect that that Target Director gives the Scheme Recommendation and has the Voting Intention; and

(ii) no public announcement is made by Target, and no public statement is made by that Target Director, which is inconsistent with that Target Director giving the Recommendations and having the Voting Intentions.

7.3 Bidder acknowledgement

Bidder acknowledges that without derogating from a party's rights under clause 13, if any of the events in clause 7.2(a) occur, then any Target Director may change, withdraw or modify their Recommendation or Voting Intention.

8 Exclusivity

8.1 Termination of existing discussions

On the date of this deed, Target must, and must procure that each of its Representatives:

(a) cease any discussions with any Third Party in relation to, a potential Competing Proposal;

(b) cease the provision of any due diligence access and the making available of any non-public information in relation to the Target Group (**Non-Public Information**) to any Third Party, where the due diligence access and provision of Non-public Information was for the purposes of, a potential Competing Proposal; and

(c) require any Third Party to whom Non-Public Information has been provided or made available to immediately return or destroy that Non-public Information in accordance with any agreed terms of confidentiality, where the Non-public Information was provided or made available for the purposes of, a potential Competing Proposal.

8.2 No-shop

During the Exclusivity Period, Target must not, and must procure that its Representatives do not:

(a) solicit, initiate or invite enquiries, discussions or proposals in relation to, or which may reasonably be expected to lead to, a Competing Proposal; or

(b) communicate to any person any intention to do any of the things referred to in clause 8.2(a),

provided that nothing in this clause 8.2 prevents Target from making normal presentations to, or responding to enquiries from, brokers, portfolio investors and analysts in the ordinary course of business or promoting the merits of the Transaction.

8.3 No-talk

Subject to clause 8.5, during the Exclusivity Period, Target must not, and must ensure that its Representatives do not:

(a) participate in or resume (where discussions have ceased under clause 8.1) any discussions or negotiations in relation to, or which may reasonably be expected to lead to, a Competing Proposal;

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(b) provide or make available to any Third Party any Non-public information where provision of that information may reasonably be expected to lead to a Competing Proposal; or

(c) communicate to any person any intention to do any of the things referred to in clause 8.3(a),

provided that nothing in this clause 8.3 prevents Target from making normal presentations to, or responding to enquiries from, brokers, portfolio investors and analysts in the ordinary course of business or promoting the merits of the Transaction.

8.4 Notification obligation

Subject to clause 8.5, during the Exclusivity Period, Target must within 2 Business Days notify Bidder in writing if it is approached, or if any of its Representatives is approached, by any person in relation to a Competing Proposal, and such notice must set out reasonable details of the approach, including the key terms of any Competing Proposal (including, if specified, the identity of the person making the Competing Proposal, consideration, conditions, structure, timing, break fee, financing and due diligence requirements) (**Key Terms**).

8.5 Fiduciary exception

In respect of a bona fide, written Competing Proposal that is made or announced without any breach by Target of its obligations under this clause 8, Target may undertake any action (**prohibited action**) that would otherwise be prohibited by clause 8.3, or refrain from notifying a matter under clause 8.4 or identifying a competing bidder as would otherwise be required by clause 8.4, if (and only to the extent that) the Target Board determines, acting in good faith and after obtaining legal advice, that not undertaking the prohibited action, or undertaking the required action, would be likely to result in the Target Directors breaching their fiduciary or statutory duties.

9 Break Fee

9.1 Background

This clause 9 has been agreed to in circumstances where:

(a) each party believes that it and its shareholders will derive significant benefits from the implementation of the Transaction;

(b) Bidder has incurred and will further incur significant costs in connection with the Transaction, which will include significant opportunity costs if the Transaction is not implemented;

(c) Bidder has requested that provision be made for the payment of the Break Fee by Target, and would not have entered into this deed had such provision not been made;

(d) Target believes that it is appropriate to agree to pay the Break Fee to secure Bidder's entry into this deed; and

(e) each party has received separate legal advice in relation to this deed and the operation of this clause 9.

The parties acknowledge and agree that the costs referred to in clause 9.1(b) are of such a nature that they cannot be precisely quantified, but that the Break Fee is a genuine and reasonable pre-estimate of the those costs.

9.2 Payment of Break Fee

Subject to clauses 9.3, 9.5 and 9.6, Target must pay Bidder the Break Fee (without set-off or withholding) within 10 Business Days after receipt of a written demand from Bidder if any of the following events occur:

(a) at any time before the termination of this deed under clause 13, a Competing Proposal is made or announced by a Third Party, and, within 12 months thereafter:

(i) a Competing Proposal of the kind referred to in either of paragraphs (a)(ii) or (a)(iii) of the definition of Competing Proposal is completed, implemented or consummated in the same or substantially the same form as made or announced (disregarding any differences in consideration or structure); or

(ii) the Third Party or an associate of the Third Party acquires Control of, or merges with, Target.

(b) Bidder becomes entitled to terminate this deed under clause 13.1(b) or 13.2, (other than in circumstances where the Independent Expert concludes in the Independent Expert's Report (or any update or variation to that report) that the Transaction is any one or more of the following: not in the best interests of, not fair, or not reasonable, to Target Shareholders).

9.3 Payment conditions

(a) Notwithstanding the occurrence of any event referred to in clause 9.2, the Break Fee will not be payable if the Scheme becomes Effective. The Break Fee must be refunded to Target within 10 Business Days after the Scheme becomes Effective if it was paid to Bidder before that time.

(b) Target can only ever be liable to pay the Break Fee once.

9.4 Nature of payment

The Break Fee is an amount to compensate Bidder for the following costs and expenses:

(a) external advisory costs (excluding success fees);

(b) internal costs such as costs of management and directors' time, risk management costs and capital costs;

(c) out-of-pocket expenses; and

(d) opportunity costs incurred in pursuing the Transaction or in not pursuing other alternative acquisitions or strategic initiatives which otherwise could have been developed or pursued.

9.5 Compliance with law

This clause 9 imposes obligations on Target only to the extent that the performance of those obligations:

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(a) does not constitute unacceptable circumstances as declared by the Takeovers Panel;

(b) does not breach the fiduciary or statutory duties of the Target Directors; and

(c) is not otherwise unlawful or held to be unenforceable by a court.

If the Break Fee is paid to Bidder and clause 9.5(a), 9.5(b) or 9.5(c) applies, Bidder must refund the relevant part of the Break Fee (if any) to Target within 10 Business Days after receipt of a written demand from Target.

9.6 Other claims

The maximum aggregate amount which the Target is required to pay in relation to a breach of this deed (including in respect of a breach or representation and warranty) is an amount equal to the Break Fee and in no event will the aggregate liability of the Target under or in connection with a breach of this deed exceed an amount equal to the Break Fee.

9.7 Exclusive Remedy

Notwithstanding any other provision under this deed, where the Break Fee becomes payable to Bidder under this deed (or would be payable if a demand was made), Bidder cannot make any claim against Target in relation to any event or occurrence referred to in clause 9.2(a) or for any material breach referred to in clause 13.1

10 Cost reimbursement

10.1 Background

This clause 10 has been agreed to in circumstances where:

(a) each party believes that it and its shareholders will derive significant benefits from the implementation of the Transaction;

(b) Target has incurred and will further incur significant costs in connection with the Transaction;

(c) Target has requested that provision be made for the payment of the Cost Reimbursement by Bidder, and would not have entered into this deed had such provision not been made;

(d) Bidder believes that it is appropriate to agree to pay the Cost Reimbursement to secure Target's entry into this deed; and

(e) each party has received separate legal advice in relation to this deed and the operation of this clause 10.

10.2 Payment of Cost Reimbursement

Subject to clause 10.3 and without limiting the rights of Target in respect of any other claims that may arise under this deed, Bidder must pay Target (without set-off or withholding) within 10 Business Days after receipt of a written demand from Target the amount of the costs reasonably incurred by the Target in connection with this deed, the Scheme or the Transaction, capped at $5,000,000 (exclusive of GST), if:

(a) the condition in clause 3.1(b) is not satisfied or waived by Bidder; or

(b) Target becomes entitled to terminate this deed under clause 13.3(b),

and provided that Target provides reasonable evidence to Bidder to substantiate such costs (**Cost Reimbursement**).

10.3 Payment conditions

(a) Notwithstanding the occurrence of any event referred to in clause 10.2, the Cost Reimbursement will not be payable if the Scheme becomes Effective and the Consideration is paid by the Bidder. The Cost Reimbursement must be refunded to Target within 10 Business Days after the Scheme becomes Effective if it was paid to Bidder before that time.

(b) Bidder can only ever be liable to pay the Cost Reimbursement once.

10.4 Nature of payment

The Cost Reimbursement is an amount to compensate Target for all reasonable external advisory costs and expenses.

11 Representations and Warranties

11.1 Bidder and Bidder's Guarantor Representations and Warranties

Bidder represents and warrants, and Bidder's Guarantor jointly and severally represents and warrants where applicable in respect of Bidder's Guarantor as well as Bidder, to the Target that:

(a) (**validly existing**) it is a validly existing corporation registered under the laws of its place of incorporation;

(b) (**power**) it has full corporate power and lawful authority to execute, deliver and perform this deed and the Deed Poll;

(c) (**corporate action**) it has taken all necessary corporate action to authorise the entry into this deed and has taken or will take all necessary corporate action to authorise the performance of this deed and the Deed Poll;

(d) (**binding**) this deed is its valid and binding obligation enforceable in accordance with its terms;

(e) (**performance**) the execution and performance by it of this deed did not and will not violate or breach any provision of:

(i) a law or treaty or a judgment, ruling, order or decree binding on it; or

(ii) its constitution;

(f) (**regulatory approvals**) as far as Bidder is aware, no regulatory approval is required to be obtained by Bidder in order for it to execute, deliver and perform this deed, other than those approvals set out in clauses 3.1(a) and 3.1(c);

(g) (**Bidder Information**) the Bidder Information included in the Scheme Booklet with its consent pursuant to clause 5.2(e), and any other information provided by it

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pursuant to clause 5.2(f), will not be misleading or deceptive in any material respect (with any statement of belief or opinion having been formed on a reasonable basis), including by way of omission or otherwise, and will comply in all material respects with applicable laws, including the Corporations Act, Corporations Regulations, RG 60 and the Listing Rules;

(h) (**basis of Bidder Information**) the Bidder Information:

(i) will be provided to Target in good faith and on the understanding that Target and each other Target Indemnified Party will rely on that information for the purposes of preparing the Scheme Booklet and proposing the Scheme; and

(ii) will comply in all material respects with the requirements of the Corporations Act, Corporations Regulations, RG 60 and the Listing Rules,

and all information provided by Bidder to the Independent Expert will be provided in good faith and on the understanding that the Independent Expert will rely on that information for the purpose of preparing the Independent Expert's Report;

(i) (**new information**): it will, as a continuing obligation, provide to Target all further or new information which arises after the Scheme Booklet has been despatched to Target Shareholders until the date of the Scheme Meeting which is necessary to ensure that the Bidder Information is not misleading or deceptive (including by way of omission);

(j) (**Insolvency Event or regulatory action**): no Insolvency Event has occurred in relation to it or another member of the Bidder Group, nor has any regulatory action of any nature of which it is aware been taken that would prevent or restrict its ability to fulfil its obligations under this deed; and

(k) (**financing)**: subject to clause 11.8, Bidder has legally binding:

(i) Debt Commitment Letters; and

(ii) Bidder Facility Agreements,

in respect of all financing required for Bidder to fund the Consideration under the Scheme.

11.2 Bidder's indemnity

Bidder agrees, and Bidder's Guarantor jointly and severally agrees, with Target (in its own right and separately as trustee or nominee for each of the other Target Indemnified Parties) to indemnify Target and each of the Target Indemnified Parties against any claim, action, damage, loss, liability, cost, expense or payment of whatever nature and however arising that Target or any of the other Target Indemnified Parties suffers, incurs or is liable for arising out of any breach of any of the Bidder Representations and Warranties.

11.3 Target Representations and Warranties

Target represents and warrants to Bidder that:

(a) (**validly existing**) it is a validly existing corporation registered under the laws of its place of incorporation;

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(b) (**power**) it has full corporate power and lawful authority to execute, deliver and perform this deed and the Scheme;

(c) (**corporate action**) it has taken all necessary corporate action to authorise the entry into this deed and has taken or will take all necessary corporate action to authorise the performance of this deed and the Scheme;

(d) (**binding**) this deed is a valid and binding obligation on Target, enforceable in accordance with its terms;

(e) (**performance**) the execution and performance by it of this deed did not and will not violate or breach any provision of:

(i) a law or treaty or a judgment, ruling, order or decree binding on it; or

(ii) its constitution;

(f) (**capital structure**) its capital structure is as set out in Schedule 2 and, other than as set out in Schedule 2:

(i) it has not issued any other Target Shares or other securities, rights or instruments which are still outstanding and may convert into, or give the holder the right to be issued, Target Shares; and

(ii) it is not under any obligation to issue, and no person has any right to require or call for the issue of, any Target Shares or other securities, rights or instruments issuable by Target (whether such obligation or right is conditional or otherwise);

(g) (**Target Information**) the Target Information included in the Scheme Booklet, and any supplementary disclosure made to Target Shareholders pursuant to clause 5.1(i) (excluding any information provided by Bidder), will not be misleading or deceptive in any material respect (with any statement of belief or opinion having been formed on a reasonable basis), including by way of omission or otherwise, and will comply in all material respects with applicable laws, including (in respect of the Target Information) the Corporations Act, Corporations Regulations, RG 60 and the Listing Rules;

(h) (**due diligence**) the Disclosure Materials were collated in good faith and solely in response to particular written requests for information from Bidder and taken in that context and read as a whole including with regard to corrections which have been made to those materials, Target is not actually aware of any material misleading or deceptive statement in, or material omission from, any of the Disclosure Materials;

(i) (**publicly available information**) Target is not aware that any information in any document or announcement which Target or any of its related bodies corporate has lodged or filed with, or otherwise given to, any Government Agency (or which has been so lodged, filed or given on its behalf or on behalf of any of its related bodies corporate), within the period of 2 years prior to the date of this deed, and which is publicly available or otherwise in the public domain, is misleading or deceptive in any material respect (whether by omission or otherwise);

(j) (**basis of Target Information**) the Target Information:

(i) will be prepared and included in the Scheme Booklet in good faith and on the understanding that Bidder and each other Bidder Indemnified Party will rely on that information; and

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(ii) will comply in all material respects with the requirements of the Corporations Act, Corporations Regulations, RG 60 and the Listing Rules,

and all information provided by Target to the Independent Expert will be provided in good faith and on the understanding that the Independent Expert will rely on that information for the purpose of preparing the Independent Expert's Report;

(k) (**new information**): it will, as a continuing obligation (but in respect of the Bidder Information, only to the extent that Bidder provides Target with updates to the Bidder Information), ensure that the Scheme Booklet is updated to include all further or new information which arises after the Scheme Booklet has been despatched to Target Shareholders until the date of the Scheme Meeting which is necessary to ensure that the Bidder Information is not misleading or deceptive (including by way of omission);

(l) (**continuous disclosure**) it is in compliance in all material respects with its continuous disclosure obligations under Listing Rule 3.1 and following release of the Agreed Public Announcement, there will be no information which it is withholding from disclosure in reliance on Listing Rule 3.1A; and

(m) (**Insolvency Event or regulatory action**) no Insolvency Event has occurred in relation to it or another member of the Target Group, nor has any regulatory action of any nature of which it is aware been taken that would prevent or restrict its ability to fulfil its obligations under this deed.

11.4 Target's indemnity

Subject to clause 9.6, Target agrees with Bidder (in its own right and separately as trustee or nominee for each Bidder Indemnified Party) to indemnify Bidder and each of the Bidder Indemnified Parties against any claim, action, damage, loss, liability, cost, expense or payment of whatever nature and however arising that Bidder or any of the other Bidder Indemnified Parties suffers, incurs or is liable for arising out of any breach of any of the Target Representations and Warranties.

11.5 Qualifications on Target's Representations and Warranties

The Target Representations and Warranties in clause 11.3 and the indemnity in clause 11.4 are each subject to matters that have been fairly disclosed in:

(a) the Disclosure Materials; and

(b) Target's announcements to ASX, or a document lodged with ASIC, prior to the date of this deed.

11.6 Survival of Representations and Warranties

Each Representation and Warranty:

(a) is severable;

(b) survives termination of this deed; and

(c) is given with the intent that liability thereunder will not be confined to breaches which are discovered prior to the date of termination of this deed.

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11.7 Survival of indemnities

Each indemnity in this deed (including those in clauses 11.2 and 11.4):

(a) is severable;

(b) is a continuing obligation;

(c) constitutes a separate and independent obligation of the party giving the indemnity from any other obligations of that party under this deed; and

(d) survives termination of this deed.

11.8 Timing of Representations and Warranties

Each Representation and Warranty is given at the date of this deed and again at 8:00am on the Second Court Date, except that the Target Representation and Warranty in clause 11.3(l) and the Bidder Representation and Warranty in clause 11.1(k)(i) is only given at the date of this deed and the Bidder Representation and Warranty in clause 11.1(k)(ii) is only given as at 8:00am on the Second Court Date.

12 Releases

12.1 Release of Target Indemnified Parties

(a) Subject to clause 12.1(b), Bidder releases any and all rights that it may have, and agrees with Target that it will not make any claim, against any Target Indemnified Party as at the date of this deed and from time to time in connection with:

(i) any breach of any covenant, representation or warranty given by Target under this deed;

(ii) any disclosures containing any statement which is false or misleading (whether by omission or otherwise); or

(iii) any failure to provide information,

whether current or future, known or unknown, arising at common law, in equity, under statute or otherwise, except where a Target Indemnified Party has not acted in good faith or has engaged in wilful misconduct. To avoid doubt, nothing in this clause 12.1(a) limits the rights of Bidder to terminate this deed under clause 13.

(b) The release in clause 12.1(a) is subject to any restriction imposed by law and will be read down to the extent that any such restriction applies.

(c) Target receives and holds the benefit of clause 12.1(a) as trustee for the Target Indemnified Parties.

12.2 Release of Bidder Indemnified Parties

(a) Subject to clause 12.2(b), Target releases any and all rights that it may have, and agrees with Bidder that it will not make any claim, against any Bidder Indemnified Party as at the date of this deed and from time to time in connection with:

(i) any breach of any covenant, representation or warranty given by Bidder under this deed;

(ii) any disclosures containing any statement which is false or misleading (whether by omission or otherwise); or

(iii) any failure to provide information,

whether current or future, known or unknown, arising at common law, in equity, under statute or otherwise, except where a Bidder Indemnified Party has not acted in good faith or has engaged in wilful misconduct. To avoid doubt, nothing in this clause 12.2 limits the rights of Target to terminate this deed under clause 13.

(b) The release in clause 12.2(a) is subject to any restriction imposed by law and will be read down to the extent that any such restriction applies.

(c) Bidder receives and holds the benefit of clause 12.2(a) as trustee for that Bidder Indemnified Parties.

12.3 Deeds of indemnity and insurance

(a) Subject to the Scheme becoming Effective and the Transaction completing, Bidder undertakes in favour of Target and each other person who is a Target Indemnified Party that it will:

(i) for a period of 7 years from the Implementation Date, ensure that the constitutions of Target and each other member of the Target Group continue to contain such rules as are contained in those constitutions at the date of this deed that provide for each company to indemnify each of its directors and officers against any liability incurred by that person in his or her capacity as a director or officer of the company to any person other than a member of the Target Group; and

(ii) procure that Target and each member of the Target Group complies with any deeds of indemnity, access and insurance made by them in favour of their respective directors and officers from time to time and without limiting the foregoing, ensure that directors' and officers' run-off insurance cover for such directors and officers is maintained, for a period of 7 years from the retirement date of each director and officer.

(b) Bidder acknowledges that notwithstanding any other provision of this deed, Target may, prior to the Implementation Date, enter into arrangements to secure directors and officers run-off insurance for up to such 7 year period, and that any actions to facilitate that insurance or in connection therewith will not be Prescribed Occurrences or breach any provision of this deed.

(c) The undertakings contained in clause 12.3(a) are subject to any Corporations Act restriction and will be read down accordingly.

(d) Target receives and holds the benefit of clause 12.3(a), to the extent it relates to the other Target Indemnified Parties as trustee for them.

(e) The undertakings contained in clause 12.3(a) are given until the earlier of the end of the relevant period specified in clause 12.3(a) or the relevant Target Group Member ceasing to be part of the Target Group.

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13 Termination

13.1 Termination by either party

(a) Either party may terminate this deed in accordance with clause 3.4.

(b) Other than in respect of a breach of a Representation and Warranty (which are dealt with in clauses 13.2 and 13.3), at any time before 8:00am on the Second Court Date, either party may terminate this deed if the other party commits a material breach of this deed, provided that:

(i) it has given written notice to the other party setting out the relevant circumstances and stating an intention to terminate this deed; and

(ii) the relevant circumstances have not been remedied within 10 Business Days from the time such notice is given (or any shorter period ending at 5:00pm on the Business Day before the Second Court Date).

Termination under this clause 13.1(b) will take effect at the expiry of the period referred to in clause 13.1(b)(ii).

13.2 Termination by Bidder

Bidder may terminate this deed, with immediate effect, at any time before 8:00am on the Second Court Date by notice in writing to Target if:

(a) Target materially breaches clause 8;

(b) in any circumstances (including where clause 7.2(a) applies), a majority of the Target Directors:

(i) withdraw, adversely change or make any public statement that is inconsistent with a Recommendation or Voting Intention; or

(ii) recommend, endorse or support any Competing Proposal; or

(c) in any circumstances, Target voluntarily enters into any agreement or arrangement in relation to the implementation of any Competing Proposal; or

(d) at the time they were made, the Target Representations and Warranties were not true and accurate in all material respects, provided that:

(i) Bidder has given written notice to Target setting out the relevant circumstances and stating an intention to terminate this deed or to allow the Scheme to lapse;

(ii) the relevant breach or circumstances have not been remedied for 10 Business Days from the time such notice is given (or any shorter period ending at 5:00pm ending on the Business Day before the Second Court Date); and

(iii) the loss that would reasonably be expected to follow from such a breach would exceed $80 million in aggregate or the relevant breach is material in the context of the Scheme taken as a whole.

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13.3 Termination by Target

(a) Target may terminate this deed, with immediate effect, by notice in writing to Bidder if, at any time before 8:00am on the Second Court Date, the Target Board publicly:

(i) withdraw or adversely change their Recommendation; or

(ii) recommend a Competing Proposal,

in each case provided that clause 7.2(a) applies;

(b) If the board of directors of Bidder Guarantor do not recommend that Bidder shareholders vote in favour of (or after having so recommended, subsequently withdraw or qualify such recommendation) each of the resolutions to be put to the Bidder shareholders at the Bidder Shareholder Meeting; or

(c) at the time they were made, the Bidder Representations and Warranties were not true and accurate in all material respects, provided that:

(i) Target has given written notice to Bidder setting out the relevant circumstances and stating an intention to terminate this deed or to allow the Scheme to lapse;

(ii) the relevant breach or circumstances have not been remedied for 10 Business Days from the time such notice is given (or any shorter period ending at 5:00pm ending on the Business Day before the Second Court Date); and

(iii) the loss that would reasonably be expected to follow from such a breach would exceed $80 million in aggregate or the relevant breach is material in the context of the Scheme taken as a whole.

13.4 Termination by written agreement

This deed may be terminated by the written agreement of the parties, on such terms as the parties agree.

13.5 Effect of termination

If this deed is terminated in accordance with this clause 13, this deed will cease to have force and effect without any liability or obligation on the part of any party, except that:

(a) this clause 13.5 and clauses 1, 12, 14, 15, 16, 17 and 18, and Schedule 1, will survive termination; and

(b) each party will retain any rights and remedies that accrued prior to termination, including any rights and remedies in respect of any past breach of this deed or (if applicable) in respect of the breach giving rise to termination.

14 Confidentiality

Each party acknowledges and agrees that nothing in this deed derogates from the rights and obligations of Target under the Confidentiality Deed, provided that this deed prevails to the extent of any inconsistency with the Confidentiality Deed.

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15 Duty, costs and expenses

15.1 Stamp duty

Bidder:

(a) must pay all stamp duties and any related fines and penalties in respect of this deed or any transaction effected under it; and

(b) indemnifies Target against any liability arising from or in connection with any failure by it to comply with clause 15.1(a).

15.2 Costs and expenses

Except as otherwise provided in this deed, each party must pay its own costs and expenses in connection with the negotiation, preparation, execution and performance of this deed and the proposed, attempted or actual implementation of the Transaction.

16 GST

(a) In this clause 16, a word or expression defined in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) has the meaning given to it in that legislation.

(b) If a party makes a supply under or in connection with this deed in respect of which GST is payable, the consideration for the supply but for the application of this clause 16(b) (**GST exclusive consideration**) is increased by an amount (**additional GST amount**) equal to the GST exclusive consideration multiplied by the rate of GST prevailing at the time the supply is made.

(c) If a party must reimburse or indemnify another party for a loss, cost or expense, the amount to be reimbursed or indemnified is first reduced by the amount equal to any input tax credit the other party, or the representative member of the GST group of which the other party is a member, is entitled to with respect to the loss, cost or expense, and then increased in accordance with clause 16(b) if such amount is consideration for a taxable supply made under or in connection with this deed.

(d) A party need not make a payment of the additional GST amount until it receives a tax invoice or adjustment note (as appropriate) for the supply to which the payment relates.

17 Guarantee by Bidder's Guarantor

17.1 Guarantee and indemnity

Bidder's Guarantor:

(a) unconditionally and irrevocably guarantees to Target on demand, the due and punctual performance of Bidder's obligations under this deed; and

(b) as a separate and additional liability, indemnifies Target against all loss, actions, proceedings and judgements of any nature, incurred by, brought, made or recovered against Target arising from any default or delay in the due and punctual performance of Bidder's obligations under this deed.

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17.2 Extent of guarantee and indemnity

The liability of Bidder's Guarantor under this clause 17 is not affected by anything that, but for this clause 17, might operate to release or exonerate Bidder's Guarantor in whole or in part from its obligations including any of the following, whether with or without the consent of Bidder's Guarantor:

(a) the grant to Bidder, Bidder's Guarantor or any other person of any time, waiver or other indulgence, or the discharge or release of Bidder, Bidder's Guarantor or any other person from any liability or obligation;

(b) any transaction or arrangement that may take place between Target, Bidder or Bidder's Guarantor or any other person;

(c) Target exercising or refraining from exercising its rights under any security or any other rights, powers or remedies against Bidder, Bidder's Guarantor or any other person;

(d) the amendment, replacement, extinguishment, unenforceability, failure, loss, release, discharge, abandonment or transfer either in whole or in part and either with or without consideration, of any security now or in the future held by Target from Bidder, Bidder's Guarantor or any other person or by the taking of or failure to take any security;

(e) the failure or omission or any delay by Target or Bidder to give notice to Bidder's Guarantor of any default by Bidder or any other person under this agreement; and

(f) any legal limitation, disability, incapacity or other circumstances related to Bidder, Bidder's Guarantor or any other person.

17.3 Principal and independent obligation

This clause 17 is a principal obligation and is not to be treated as ancillary or collateral to any other right or obligation and extends to cover this agreement as amended, varied, supplemented, renewed or replaced.

17.4 Continuing guarantee and indemnity

This clause 17 is a continuing obligation of Bidder's Guarantor, despite Implementation, and remains in full force and effect for so long as Bidder has any liability or obligation to Target under this deed and until all of those liabilities or obligations have been fully discharged.

17.5 No withholdings

(a) Bidder's Guarantor must make all payments that become due under this clause 17, free and clear and without deduction of all present and future withholdings (including taxes, duties, levies, imposts, deductions and charges of Australia or any other jurisdiction).

(b) If Bidder's Guarantor is compelled by law to deduct any withholding, then in addition to any payment due under this clause 17, it must pay to Target such amount as is necessary to ensure that the net amount received by Target after withholding equals the amount Target would otherwise been entitled to if not for the withholding.

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17.6 Currency

Bidder's Guarantor must pay all moneys that it becomes liable to pay under this clause 17 in the currency in which they are payable under this agreement and free of any commissions and expenses relating to foreign currency conversion or any other charges or expenses.

17.7 No set off

Bidder Guarantor has no right to set off, deduct or withhold any moneys that it may be or become liable to pay under this clause 17, against any moneys that Target or any other member of the Target Group may be, or become, liable to pay to a member of the Bidder Group whether under this deed or otherwise.

17.8 Bidder's Guarantor's liability

Bidder's Guarantor's liability in respect of any claim shall not exceed Bidder's liability in respect of that claim.

18 General

18.1 Notices

(a) A notice, consent, approval, waiver or other communication sent by a party under this deed (**Notice**) must be:

(i) in writing;

(ii) sent by an authorised representative of the sender; and

(iii) marked for the attention of the person named below,

and must be:

(iv) left at, or sent by commercial courier to, the address set out below;

(v) sent by fax to the number set out below; or

(vi) sent by email to the address set out below.

Bidder and Bidder's Guarantor

Attention: **Ralph Buddle**

Address: Woolworths House 93 Longmarket Street Cape Town 8001 South Africa

Email: ralphbuddle@woolworths.co.za

with a copy (for information purposes only) to:

HNarushima@gtlaw.com.au
NNagarajah@gtlaw.com.au

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Target

Attention: Susan Leppinus, General Counsel and Company Secretary

Address: 86 – 108 Castlereagh Street, Sydney NSW 2000

Email: sleppinus@davidjones.com.au

with a copy (for information purposes only) to:

Rebecca.Maslen-Stannage@hsf.com
Courtney.Dixon@hsf.com

(b) Subject to clause 18.1(c), a Notice is taken to be received:

(i) if sent by delivery, when it is delivered;

(ii) if sent by commercial courier, three days after dispatch;

(iii) if sent by fax, at the time shown in the transmission report produced by the machine from which the fax was sent as the time the fax was sent in its entirety; or

(iv) if sent by email:

(A) when the sender receives an automated message confirming delivery; or

(B) four hours after the time sent (as recorded on the device from which the email was sent), provided that the sender does not receive an automated message that the email has not been delivered,

whichever happens first.

(c) If a Notice is taken to be received under clause 18.1(b):

(i) before 9:00am on a Business Day, it will be taken to be received at 9:00am on that Business Day; or

(ii) after 5:00pm on a Business Day or on a non-Business Day, it will be taken to be received at 9:00am on the next Business Day.

18.2 Governing law and jurisdiction

(a) This deed is governed by the laws of New South Wales.

(b) Each party irrevocably submits to the non-exclusive jurisdiction of the courts of New South Wales and courts competent to hear appeals from those courts.

18.3 No representation or reliance

(a) Each party acknowledges that no party (nor any person acting on its behalf) has made any representation or other inducement to it to enter into this deed, except for representations or inducements expressly set out in this deed and (to the maximum extent permitted by law) all other representations, warranties and conditions implied by statute or otherwise in relation to any matter relating to this

deed, the circumstances surrounding the parties' entry into it and the transactions contemplated by it are expressly excluded.

(b) Each party acknowledges and confirms that it does not enter into this deed in reliance on any representation or other inducement by or on behalf of any other person, except for any representation or inducement expressly set out in this deed.

18.4 No merger

The rights and obligations of the parties do not merge on completion of the Transaction. They survive the execution and delivery of any assignment or other document entered into for the purpose of implementing the Transaction.

18.5 Waivers and consents

(a) Failure to exercise or enforce, a delay in exercising or enforcing, or the partial exercise or enforcement of any right, power or remedy provided by law or under this deed by any party does not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement, of that or any other right, power or remedy provided by law or under this deed.

(b) Any waiver or consent given by a party under this deed is only effective and binding on that party if it is given or confirmed in writing by that party.

(c) No waiver of a breach of any term of this deed operates as a waiver of another breach of that term or of a breach of any other term of this deed.

(d) Except where this deed expressly provides otherwise, where the consent of a party is required under this deed, such consent may be given or withheld in that party's absolute discretion.

18.6 Variation

This deed may only be varied by a document signed by or on behalf of each of the parties.

18.7 Assignment

A party may not assign, novate or otherwise transfer any of its rights or obligations under this deed without the prior written consent of the other parties.

18.8 Further action

Each party will do all things and execute all further documents necessary to give full effect to this deed.

18.9 Entire agreement

This deed supersedes all previous agreements, understandings, negotiations or deeds in respect of its subject matter and embodies the entire agreement between the parties.

18.10 Severability

If the whole or any part of a provision of this deed is void, unenforceable or illegal in a jurisdiction, it is severed for that jurisdiction but only to the extent that it is void, unenforceable or illegal and provided that it will have full force and effect in any other

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jurisdiction. Where a provision (or any part thereof) is severed in a jurisdiction, the remainder of this deed will have full force and effect in that (and any other) jurisdiction.

This clause 18.10 does not apply to any severance that alters the basic nature of this deed or is contrary to public policy.

18.11 Counterparts

This deed may be executed in any number of counterparts. All counterparts together will be taken to constitute one instrument.

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Schedule 1 — Dictionary

1 Dictionary

additional GST amount has the meaning given in clause 16(d).

Agreed Public Announcement means an announcement in a form agreed between Bidder and Target prior to execution of this deed, to be released by each of Bidder and Target pursuant to clause 6(a).

ASIC means the Australian Securities and Investments Commission.

associate has the meaning given in section 12 of the Corporations Act.

ASX means ASX Limited (ABN 98 008 624 691) or, where the context requires, the financial market operated by it known as the "Australian Securities Exchange".

Bidder Category 1 Circular means the circular prepared by Bidder for provision to its shareholders in respect of the condition precedent in clause 3.1(b).

Bidder Facility Agreements means the debt facility agreements and related documents entered or to be entered into by the Bidder or its Related Body Corporate on or after the date of this deed on the terms contemplated by the Debt Commitment Letters.

Bidder Group means, collectively, Bidder and each of its Related Bodies Corporate.

Bidder Indemnified Party means a director, officer, employee or adviser of a member of the Bidder Group.

Bidder Information means information regarding the Bidder Group provided by or on behalf of Bidder to Target or its Representatives in writing for inclusion in a Scheme Booklet.

Bidder Representations and Warranties means the representations and warranties set out in clause 11.1.

Bidder Rights Offer Circular means the disclosure document under the JSE Listing Requirements to be prepared by Bidder in respect of the Rights Offer.

Bidder's Shareholder Meeting means a meeting of the shareholders of Bidder's Guarantor called to, among other things, vote on and approve the Rights Offer and the Transaction in terms of section 9 of the JSE Listings Requirements.

Business Day has the meaning given in the Listing Rules.

Break Fee means $22,000,000 (exclusive of GST).

Competing Proposal means any proposal, offer, agreement, arrangement or transaction which is sufficiently detailed and credible to warrant consideration as such by Target and which:

(a) if entered into or completed, would result in a Third Party (either alone or together with one or more associates) directly or indirectly:

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(i) acquiring an interest (including an economic interest by way of an equity swap, contract for difference or similar transaction or arrangement) or a Relevant Interest in 20% or more of the Target Shares;

(ii) acquiring, becoming the holder of or having a right to acquire or an economic interest in all or a substantial part of the business, or any of the material assets, of the Target Group (where a material asset of the Target Group will include rights in respect of assets representing 50% or more of the value of the Target Group's total assets); or

(iii) otherwise acquiring, acquiring Control of or merging with Target or any other member of the Target Group,

whether by takeover bid, scheme of arrangement, shareholder approved acquisition, capital reduction, share buy-back or repurchase, sale or purchase of assets or interests therein, joint venture, reverse takeover bid, dual-listed company structure, recapitalisation, establishment of a new holding company for the Target Group or other synthetic merger, or any other means.

condition precedent means a condition set out in clause 3.1.

Confidentiality Deed means the confidentiality deed between Woolworths Holdings Limited (Registration Number 1929/001986/06 of 99 Longmarket Street, Cape Town 8001, South Africa and Target, dated 19 March 2014.

Consideration means, in respect of each Scheme Share, A$4.00.

Consultation Notice has the meaning given in clause 3.4(a)

Control has the meaning given in section 50AA of the Corporations Act.

Corporations Act means the *Corporations Act 2001* (Cth).

Corporations Regulations means the *Corporations Regulations 2001* (Cth).

Court means the Federal Court of Australia or such other court of competent jurisdiction under the Corporations Act as agreed in writing between Bidder and Target.

Court Documents means the documents required for the purposes of a Court Hearing, including (as applicable) originating process, affidavits, submissions and draft minutes of Court orders.

Court Hearing means the First Court Hearing or Second Court Hearing (as applicable), and **Court Hearings** means both of them.

Cost Reimbursement has the meaning given in clause 10.2.

Debt Commitment Letters means the credit approved executed commitment letters and accompanying term sheets from certain banks and financial institutions addressed to Bidder Group entities in respect of any debt finance proposed to be raised by Bidder Group entities in connection with the Transaction contemplated by this deed, and dated on or prior to the date of this deed.

Deed Poll means the deed poll to be entered into by Bidder's Guarantor and Bidder in respect of the provision of the Consideration, in the form of Attachment B.

Discloser has the meaning given in clause 3.2(e).

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Disclosure Materials means the information in relation to the Target Group disclosed in writing by or on behalf of Target to Bidder and its Representatives prior to the date of this deed, including:

(a) the documents and information contained in the online data room (**Online Data Room**) to which Bidder and its Representatives were given access prior to the date of this deed, the index of which has been initialled by the parties for identification; and

(b) any written answers to requests for further information made by Bidder and its Representatives as contained in the Online Data Room.

Effective means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act, in relation to the Scheme.

Effective Date means the date on which a Scheme becomes Effective.

Encumbrance means a mortgage, charge, pledge, lien, encumbrance, security interest, title retention, preferential right, trust arrangement, contractual right of set-off or any other security agreement or arrangement in favour of any person, whether registered or unregistered, including any Security Interest.

End Date means 23 September 2014 or such later date as Bidder and Target agree in writing.

Existing Business Lines means lines of business in which Target is engaged as at the date of this deed or which are typical for a department store business.

Exclusivity Period means the period from the date of this deed to the earlier of:

(a) the termination of this deed under clause 13; and

(b) the End Date.

First Court Date means the first day on which an application made to the Court for orders under section 411(1) of the Corporations Act directing Target to convene the Scheme Meeting is heard (or if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard) with such hearing being the **First Court Hearing**.

Force Majeure Event means:

(a) any material adverse change in national or international monetary, political, financial or economic conditions, or securities markets, or any material adverse change in any foreign exchange controls in South-Africa, Australia, the United Kingdom or the United States of America;

(b) a suspension or material limitation in trading in securities generally on the JSE, ASX, the NYSE, Nasdaq or the London Stock Exchange;

(c) a suspension or material limitation in trading in Bidder's Guarantor's shares on the JSE for a period exceeding 10 consecutive trading days provided that such suspension or material limitation in trading has not been requested or triggered in bad faith by Bidder's Guarantor; or

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(d) a general moratorium on commercial banking activities in South Africa, Australia, the United Kingdom or the United States of America by any relevant authority or a material disruption in commercial banking or securities settlement or clearance services in South Africa, Australia, the United Kingdom or the United States of America,

in each case which makes it impracticable for Bidder to make payment of the Consideration.

Government Agency means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal, statutory or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state, or any other federal, state, provincial, local or other government, whether foreign or Australian. It also includes any self-regulatory organisation established under statute or otherwise discharging substantially public or regulatory functions (including ASIC and the Takeovers Panel), the South African Reserve Bank and any stock exchange (including ASX and JSE).

GST exclusive consideration has the meaning given in clause 16(b).

Implementation Date means the fifth Business Day after the Record Date or such other day as the parties agree in writing.

Independent Expert means the independent expert to be appointed by Target to prepare the Independent Expert's Report in accordance with clause 5.1(a).

Independent Expert's Report means the report in respect of the Scheme to be prepared and issued by the Independent Expert for inclusion in the Scheme Booklet.

Insolvency Event means, in relation to any entity:

(a) the entity resolving that it be wound up or a court making an order for the winding up or dissolution of the entity:

(b) a liquidator, provisional liquidator, administrator, receiver, receiver and manager or other insolvency official being appointed to the entity or in relation to the whole, or a substantial part, of its assets;

(c) the entity executing a deed of company arrangement;

(d) the entity is or becomes unable to pay its debts when they fall due within the meaning of the Corporations Act (or, if appropriate, legislation of its place of incorporation) or is otherwise presumed to be insolvent under the Corporations Act unless the entity has, or has access to, committed financial support from its parent entity such that it is able to pay its debts; or

(e) the entity being deregistered as a company or otherwise dissolved.

JSE means JSE Limited.

JSE Listings Requirements means the official listings requirements of JSE.

Key Terms has the meaning given in clause 8.4.

Listing Rules means the official listing rules of ASX.

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Material Adverse Change means:

(a) a matter, event or circumstance that occurs, is announced or becomes known to Bidder where that matter, event or circumstance has, has had, or is reasonably likely to have, either individually, or when aggregated with any other matters, events or circumstances of a similar kind or category, the effect of:

(i) diminishing on an estimated annualised basis the Target Group's estimated net profit after tax for FY14 so that it is less than $75 million (excluding any one-off or non-recurring event);

(ii) reducing Target Group's net tangible assets by greater than $80 million (including a one off or non-recurring event); or

(b) any other matter, event or circumstance (including a one-off or non-recurring event) that occurs, is announced or becomes known to Bidder where that matter event or circumstance is, or is reasonably likely to be, materially adverse to the ability of Target to perform its obligations under this deed,

in each case (except that paragraph (d) only will not qualify paragraph (a))other than matters, events or circumstances (on or after the date of this deed):

(c) required or specifically permitted by this deed or the Scheme;

(d) resulting from changes in general economic or political conditions or the securities market in general;

(e) fairly disclosed to Bidder or ASX prior to the date of this deed (or which may arise from a matter, event or circumstance which was disclosed); or

(f) that occur with the written consent of Bidder.

Non-public Information has the meaning given in clause 8.1(b).

Notice has the meaning given in clause 18.1(a).

Performance Rights means the performance rights issued under the Target LTIP and the Target STIP as set out in Schedule 2.

Prescribed Occurrence means the occurrence of any of the following:

(a) Target converting all or any of its shares into a larger or smaller number of shares;

(b) any member of the Target Group resolving to reduce its share capital in any way or reclassifying, combining, splitting or redeeming any of its shares;

(c) any member of the Target Group:

(i) entering into a buy-back agreement; or

(ii) resolving to approve the terms of a buy-back agreement under the Corporations Act;

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(d) any member of the Target Group issuing shares, or granting a performance right or an option over its shares, or agreeing to make such an issue or grant such a performance right or an option;

(e) any member of the Target Group issuing or agreeing to issue securities convertible into shares (including any issue or agreement to issue performance rights) or debt securities;

(f) any member of the Target Group making, determining as payable or declaring any distribution (whether by way of dividend, capital reduction or otherwise and whether cash or in specie), other than the fully franked interim dividend of 10.0 cents per share announced on 19 March 2014;

(g) any member of the Target Group disposing, or agreeing to dispose, of the whole, or a substantial part, of its business or property;

(h) any member of the Target Group ceasing, or threatening to cease, the whole or a material part of its business;

(i) any member of the Target Group creating, granting or agreeing to any Encumbrance over any of the assets of any member of the Target Group, other than a lien which arises by operation of law, legislation or arises in the ordinary course of the Target Group's business;

(j) any member of the Target Group resolving that it be wound up or the making of an application or order for the insolvent winding up or dissolution of a member of the Target Group other than where the application or order (as the case may be) is set aside within 14 days;

(k) a liquidator or provisional liquidator of a member of the Target Group being appointed;

(l) a court making an order for the winding up of a member of the Target Group;

(m) an administrator of a member of the Target Group being appointed under the Corporations Act;

(n) any member of the Target Group is or becomes unable to pay its debts when they fall due within the meaning of the Corporations Act or is otherwise presumed to be insolvent under the Corporations Act unless that company has, or has access to, committed financial support from its parent entity such that it is able to pay its debts;

(o) a member of the Target Group making any change to its constitution;

(p) any member of the Target Group executing a deed of company arrangement;

(q) a receiver, or a receiver and manager, being appointed in relation to the whole, or a substantial part, of the property of a member of the Target Group;

(r) any member of the Target Group being deregistered as a company or otherwise dissolved other than on a solvent basis;

(s) any member of the Target Group enters into, agrees to enter into or announces any agreement or transaction which, if performed or completed, would, or could reasonably be expected to, involve or result in any member(s) of the Target Group:

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(i) acquiring, agreeing to acquire or offering to acquire one or more companies, entities, securities, businesses or assets, or any interest in any joint venture or partnership, in any such case having a value of at least $40 million, either individually or when aggregated with all other such acquisitions or agreements permitted by this sub-paragraph (s)(i);

(ii) disposing of, agreeing to dispose of or offering to dispose of (whether by way of sale, transfer, joint venture or otherwise) one or more companies, entities, securities, businesses or assets (or any interest (including an economic interest) or right in any of the foregoing), or any interest in any joint venture or partnership, in any such case having a value of at least $40 million, either individually or when aggregated with all other such disposals, agreements or offers permitted by this sub-paragraph (s)(ii);

(t) any member of the Target Group:

(i) incurs or commits to, or brings forward the time for incurring or committing to, or grants to another person a right the exercise of which could be reasonably expected to involve or result in any member of the Target Group incurring or committing to, any capital expenditure, financial indebtedness (including borrowings, loans and advances) or liability (whether actual or contingent), or foregoing any revenue, for one or more related items or amounts of in aggregate more than $40 million (provided that any member of the Target Group drawing on lines of credit which are in place at the date of entry into this deed and in the ordinary course of business will not be taken to breach or be counted under, this clause (t)(i));

(ii) subject to (t)(iii), enters into, agrees to enter into or materially amends any employment, consulting, severance or other similar arrangement or agreement with any officer, director, executive or employee of the Target Group whose total employment cost exceeds $500,000 (**Relevant Employee**) without first consulting with Bidder and giving Bidder a reasonable opportunity to provide input for Target's consideration;

(iii) increases the remuneration of, pays any bonus or termination or retention payment other than as disclosed to Bidder by Target prior to the date of this deed to, or varies or terminates the employment arrangements of any Relevant Employee (or agrees to do any of these things), in any such case otherwise than in accordance with contractual entitlements (including under the Target STIP) existing as at the date of this deed;

(iv) accepts as a compromise of a matter less than the full compensation due to it or any other member(s) of the Target Group where the compromise is more than $40 million or waives any material Third Party default where the financial impact upon the Target Group would be in excess of $40 million;

(v) changes any accounting policy applied by them to report their financial position other than any change in policy required by a change in accounting standards;

(vi) does anything that would result in a de-consolidation of the Target consolidated tax group; or

(vii) is in material default under any agreement or arrangement which is material in the context of the Target Group taken as a whole;

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(u) any member of the Target Group authorises, procures or commits or agrees to do any of the matters set out above,

but does not include any occurrence:

(v) required or permitted by this deed or the Scheme or the transactions contemplated by either;

(w) agreed to in writing by Bidder;

(x) fairly disclosed in the Disclosure Materials;

(y) fairly disclosed by Target in an announcement made by Target to ASX, or a document lodged by it with ASIC, prior to the date of this deed; or

(z) which occurs in the ordinary course of the Target Group's business.

prohibited action has the meaning given in clause 8.5.

Recipient has the meaning given in clause 3.2(e).

Recommendation has the meaning given in clause 7.2(a)(i).

Record Date means 7:00pm on the fifth Business Day after the Effective Date of the Scheme.

Regulator's Draft has the meaning given in clause 5.1(c)(i).

Regulatory Matter has the meaning given in clause 3.2(d)(ii)(A).

Related Body Corporate has the meaning given in section 50 of the Corporations Act.

Relevant Employee means any officer, director, executive or employee of the Target Group whose total employee cost exceeds $500,000.

Relevant Interest has the meaning given in sections 608 and 609 of the Corporations Act.

Representation and Warranty means a Bidder Representation and Warranty or Target Representation and Warranty.

Representative means, in respect of a party, an employee, agent, officer, director, adviser or financier of that party (or of a Related Body Corporate of that party), and, in the case of advisers and financiers, includes employees, officers and agents of the adviser or financier (as applicable).

RG 60 means Regulatory Guide 60 issued by ASIC and dated September 2011.

Rights Offer means an entitlement offer to be made by Bidder Guarantor to its shareholders on or soon after the date of the Scheme Meeting.

Rights Offer Underwriter means the underwriter appointed for the purposes of the Rights Offer and Rights Offer Underwriters has the corresponding meaning.

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Scheme means a members' scheme of arrangement under Part 5.1 of the Corporations Act between Target and the Scheme Shareholders, in the form of Attachment C, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act.

Scheme Booklet means the explanatory statement in respect of the Scheme to be prepared by Target pursuant to section 412 of the Corporations Act and in accordance with clause 5.1(b), and to be despatched to Target Shareholders in accordance with clause 5.1(h), which will contain (among other things) the Independent Expert's Report (or a concise version of that report), a notice of meeting in respect of the Scheme Meeting and a proxy form.

Scheme Meeting means the meeting of Target Shareholders ordered by the Court to be convened at the First Court Hearing.

Scheme Share means a Target Share held by a Scheme Shareholder as at the Record Date.

Scheme Shareholder means a Target Shareholder as at the Record Date.

Second Court Date means the first day on which an application made to the Court for orders under section 411(4)(b) of the Corporations Act approving the Scheme is heard (or if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard), with such hearing being the **Second Court Hearing**.

Security Interest has the meaning given in section 12 of the *Personal Property Securities Act 2009* (Cth).

Sensitive Confidential Information has the meaning given in clause 3.2(e).

Share Register means the register of Target Shareholders maintained in accordance with the Corporations Act.

Superior Proposal means a bona fide, Competing Proposal for the acquisition of 100% of the Target securities (including all Target Shares) which the Target Board considers, acting in good faith and after taking written advice from Target's legal and financial advisers:

(a) is subject to conditions (taken as a whole) no more onerous than the conditions precedent to the Scheme in clause 3.1 (taken as a whole);

(b) is reasonably likely to be implemented within 6 months, having regard to the proponent(s) and conditionality of the proposal; and

(c) would, if implemented substantially in accordance with its terms, result in a more favourable outcome for Target Shareholders than would result from implementation of the Scheme.

Takeovers Panel means the Takeovers Panel constituted under the *Australian Securities and Investments Commission Act 2001* (Cth).

Target Board means the board of directors of Target.

Target Director means a director of Target.

Target Group means, collectively, Target and each of its Related Bodies Corporate.

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Target Indemnified Party means a director, officer, employee or adviser of a member of the Target Group.

Target Information means all the information in a Scheme Booklet other than the Bidder Information and the Independent Expert's Report.

Target LTIP means the David Jones Limited FY 13-15 Executive Long-Term Incentive Plan and the FY 14-16 Executive Long-Term Incentive Plan.

Target Options means the options to subscribe for Target Shares (on a one for one basis), as set out in Schedule 2.

Target Representations and Warranties means the representations and warranties set out in clause 11.2.

Target Share means a fully paid ordinary share in the capital of Target.

Target Shareholder means a holder of one or more Target Shares, as shown in the Share Register.

Target STIP means the plan described under the David Jones Limited Incentive Plan Policy and which, in respect of the deferred share component of that plan, is governed by the David Jones Limited FY2014 Incentive Plan Performance Rights Terms.

Terminating Party has the meaning given in clause 3.4.

Termination Event has the meaning given in clause 3.4.

Termination Notice has the meaning given in clause 3.4.

Third Party means a person other than Bidder and its associates.

Timetable means the indicative timetable for the implementation of the Transaction set out in Attachment A.

Trading Day has the meaning given in the Listing Rules.

Transaction means the acquisition of Target by Bidder by means of the Scheme.

Voting Intention has the meaning given in clause 7.1(b).

2 Interpretation

In this deed, the following rules of interpretation apply unless the contrary intention appears.

(a) Headings are for convenience only and do not affect the interpretation of this deed.

(b) The singular includes the plural and vice versa.

(c) Words that are gender neutral or gender specific include each gender.

(d) Where a word or phrase is given a particular meaning, other parts of speech and grammatical forms of that word or phrase have corresponding meanings.

(e) The words "include", "including", "such as", "to avoid doubt" and similar expressions are not words of limitation and do not limit what else might be included.

(f) A reference to:

(i) a person includes a natural person, partnership, joint venture, government agency, association, corporation or other body corporate or entity (as that term is defined in section 64A of the Corporations Act);

(ii) a thing (including a chose in action or other right) includes a part of that thing;

(iii) a party includes its successors and permitted assigns;

(iv) a document includes all amendments or supplements to that document;

(v) a clause, term, party, schedule or attachment is a reference to a clause or term of, or a party, schedule or attachment to, this deed (as applicable);

(vi) this deed includes all schedules and attachments to it;

(vii) a law includes a constitutional provision, treaty, decree, convention, statute, regulation, ordinance, by-law, judgment, rule of common law or equity or a Listing Rule and is a reference to that law as amended, consolidated or replaced;

(viii) an agreement (other than this deed) includes an undertaking or legally enforceable arrangement or understanding (whether or not in writing);

(ix) a time period includes the date referred to as that on which the period begins and the date referred to as that on which the period ends; and

(x) a monetary amount is in Australian dollars;

(g) An agreement on the part of two or more persons binds them jointly and severally.

(h) When the day on which something must be done is not a Business Day, that thing must be done on the following Business Day.

(i) In determining the time of day, where relevant to this deed, the time of day is:

(i) for the purposes of giving or receiving Notice, the time of day where the party receiving Notice is located; or

(ii) for any other purpose under this deed, the time of day in the place where the party required to perform an obligation is located.

(j) No rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of this deed or any part of it.

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Schedule 2 — Target capital structure

Security	Total number on issue	Vesting date	Exercise price ($)	Expiry date
Target Shares	537,137,845	N/A	N/A	N/A
Performance Rights issued pursuant to the FY13/15 Target LTIP	1,000,000	30 September 2015	0	Subject to the terms of the Target LTIP, expiry occurs if the pre-acquisition requirements are not satisfied
Performance Rights issued pursuant to the FY14/16 Target LTIP	1,035,000	30 September 2016	0	Subject to the terms of the Target LTIP, expiry occurs if the pre-acquisition requirements are not satisfied
Retained Target Shares to be issued on conversion of Performance Rights issued under the 2012/2013 Target STIP (deferred component)*	18,000	Already vested	N/A	N/A

*Note: this is residual 2012/2013 Target STIP. No vesting has yet occurred in respect of the 2014 Target STIP.

Execution page

Executed as a deed.

Signed and delivered by **Vela Investments Pty Limited** in accordance with section 127 of the *Corporations Act 2001* (Cth) and by:

Signature of director	Signature of director/secretary
Name of director (print)	Name of director/secretary (print)

Signed and delivered by authorised signatories of **Woolworths Holdings Limited** by:

Signature of authorised signatory	Signature of authorised signatory
Name (print)	Name (print)

Signed and delivered by **David Jones Limited** in accordance with section 127 of the *Corporations Act 2001* (Cth) and by:

Signature of director	Signature of director/secretary
Name of director (print)	Name of director/secretary (print)

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Attachment A — Timetable

Event	Target date (2014)
Release of Agreed Public Announcement	9 April
Regulator's Draft provided to ASIC	Early May
Bidder Category 1 Circular sent to Bidder Guarantor shareholders	Mid May
First Court Hearing	Mid to late May
Bidder's Shareholder Meeting	Mid June
Scheme Meeting	Late June
Second Court Hearing	Late June to early July
Effective Date	Early July
Record Date	Early to mid July
Implementation Date	Mid July

Attachment B — Deed Poll

Please refer to Annexure E of Scheme Booklet

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Attachment C — Scheme

Please refer to Annexure D of Scheme Booklet

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D

ANNEXURE D
SCHEME OF ARRANGEMENT

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SMITH
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Scheme of arrangement – share scheme

David Jones Limited

Scheme Shareholders

ANZ Tower 161 Castlereagh Street Sydney NSW 2000 Australia
GPO Box 4227 Sydney NSW 2001 Australia

T +61 2 9225 5000 **F** +61 2 9322 4000
herbertsmithfreehills.com DX 361 Sydney

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HERBERT SMITH FREEHILLS

Scheme of arrangement – share scheme

This scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth)

Between the parties

David Jones Limited ACN 000 074 573 of 86-108 Castlereagh Street, Sydney New South Wales 2000, Australia

(**Target**)

The Scheme Shareholders

1 Definitions, interpretation and scheme components

1.1 Definitions

Schedule 1 contains definitions used in this Scheme.

1.2 Interpretation

Schedule 1 contains interpretation rules for this Scheme.

1.3 Scheme components

This Scheme includes any schedule to it.

2 Preliminary matters

(a) Target is a public company limited by shares, registered in Australia, and has been admitted to the official list of the ASX. Target Shares are quoted for trading on the ASX.

(b) As at the Second Court Date, 537,137,845 Target Shares were on issue.

(c) Bidder's Guarantor is a listed company limited by shares registered in South Africa.

(d) Bidder, a wholly-owned subsidiary of Bidder's Guarantor, is a company limited by shares registered in Australia.

(e) If this Scheme becomes Effective:

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(1) Bidder must (and Bidder Guarantor unconditionally and irrevocably guarantees the obligation of Bidder to) provide or procure the provision of the Consideration to the Scheme Shareholders in accordance with the terms of this Scheme and the Deed Poll; and

(2) all the Scheme Shares, and all the rights and entitlements attaching to them as at the Implementation Date, must be transferred to Bidder and Target will enter the name of Bidder in the Share Register in respect of the Scheme Shares.

(f) Target, Bidder's Guarantor and Bidder have agreed, by executing the Implementation Deed, to implement this Scheme.

(g) This Scheme attributes actions to Bidder's Guarantor and Bidder but does not itself impose an obligation on them to perform those actions. Bidder's Guarantor and Bidder have agreed, by executing the Deed Poll, to perform the actions attributed to them under this Scheme, including the provision or procuring the provision of the Consideration to the Scheme Shareholders.

3 Conditions

3.1 Conditions precedent

This Scheme is conditional on and will not become Effective until, the satisfaction of each of the following conditions precedent:

(a) all the conditions in clause 3 of the Implementation Deed (other than the condition (3.1(d)) in the Implementation Deed relating to Court approval of this Scheme) having been satisfied or waived in accordance with the terms of the Implementation Deed by 8.00am on the Second Court Date;

(b) neither the Implementation Deed nor the Deed Poll having been terminated in accordance with their terms before 8.00am on the Second Court Date;

(c) approval of this Scheme by the Court under paragraph 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under subsection 411(6) of the Corporations Act and agreed to by Bidder and Target;

(d) such other conditions made or required by the Court under subsection 411(6) of the Corporations Act in relation to this Scheme and agreed to by Bidder and Target having been satisfied or waived; and

(e) the orders of the Court made under paragraph 411(4)(b) (and, if applicable, subsection 411(6)) of the Corporations Act approving this Scheme coming into effect, pursuant to subsection 411(10) of the Corporations Act on or before the End Date (or any later date Target and Bidder agree in writing).

3.2 Certificate

(a) Target and Bidder will provide to the Court on the Second Court Date a certificate, or such other evidence as the Court requests, confirming (in respect of matters within their knowledge) whether or not all of the conditions precedent in clauses 3.1(a) and 3.1(b) have been satisfied or waived.

(b) The certificate referred to in clause 3.2(a) constitutes conclusive evidence that such conditions precedent are satisfied, waived or taken to be waived.

3.3 End Date

This Scheme will lapse and be of no further force or effect if:

(a) the Effective Date does not occur on or before the End Date; or

(b) the Implementation Deed or the Deed Poll is terminated in accordance with its terms, unless Bidder and Target otherwise agree in writing.

4 Implementation of this Scheme

4.1 Lodgement of Court orders with ASIC

Target must lodge with ASIC, in accordance with subsection 411(10) of the Corporations Act, an office copy of the Court order approving this Scheme as soon as possible and in any event by 5.00pm on the first Business Day after the day on which the Court approves this Scheme.

4.2 Transfer of Scheme Shares

On the Implementation Date:

(a) subject to the provision of the Consideration in the manner contemplated by clause 5, the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, must be transferred to Bidder, without the need for any further act by any Scheme Shareholder (other than acts performed by Target as attorney and agent for Scheme Shareholders under clause 8.5), by:

(1) Target delivering to Bidder a duly completed Scheme Transfer, executed on behalf of the Scheme Shareholders by Target, for registration; and

(2) Bidder duly executing the Scheme Transfer, attending to the stamping of the Scheme Transfer (if required) and delivering it to Target for registration; and

(b) immediately following receipt of the Scheme Transfer in accordance with clause 4.2(a)(2), Target must enter, or procure the entry of, the name of Bidder in the Share Register in respect of all the Scheme Shares transferred to Bidder in accordance with this Scheme.

5 Consideration

5.1 Provision of Consideration

(a) Bidder must, or must procure that (and Bidder Guarantor unconditionally and irrevocably guarantees the obligation of Bidder to), by no later than the Business Day before the Implementation Date, an amount equal to the aggregate amount of the Consideration payable to each Scheme Shareholder is deposited in cleared funds in an Australian dollar denominated trust account operated by Target as trustee for the Scheme Shareholders, (provided that any

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interest on the amounts deposited (less bank fees and other charges) will be credited to Bidder's account).

(b) On the Implementation Date, subject to funds having been deposited in accordance with clause 5.1(a), Target must pay or procure the payment of the Consideration to each Scheme Shareholder from the trust account referred to in clause 5.1(a).

(c) The obligations of Target under clause 5.1(b) will be satisfied by Target (in its absolute discretion):

(1) where a Scheme Shareholder has, before the Record Date, made a valid election in accordance with the requirements of the Share Registry to receive dividend payments from Target by electronic funds transfer to a bank account nominated by the Scheme Shareholder, paying, or procuring the payment of, the relevant amount in Australian currency by electronic means in accordance with that election; or

(2) otherwise, whether or not the Scheme Shareholder has made an election referred to in clause 5.1(c)(1), dispatching, or procuring the dispatch of, a cheque for the relevant amount in Australian currency to the Scheme Shareholder by prepaid post to their Registered Address (as at the Record Date), such cheque being drawn in the name of the Scheme Shareholder (or in the case of joint holders, in accordance with the procedures set out in clause 5.2).

(d) To the extent that, following satisfaction of Target's obligations under clause 5.1(b), there is a surplus in the amount held by Target as trustee for the Scheme Shareholders in the trust account referred to in that clause, that surplus may be paid by Target to Bidder.

5.2 Joint holders

In the case of Scheme Shares held in joint names:

(a) subject to clause 5.1(c), the Consideration is payable to the joint holders and any cheque required to be sent under this Scheme will be made payable to the joint holders and sent to either, at the sole discretion of Target, the holder whose name appears first in the Share Register as at the Record Date or to the joint holders; and

(b) any other document required to be sent under this Scheme, will be forwarded to either, at the sole discretion of Target, the holder whose name appears first in the Share Register as at the Record Date or to the joint holders.

5.3 Fractional entitlements and splitting

Where the calculation of the Consideration to be issued to a particular Scheme Shareholder would result in the Scheme Shareholder becoming entitled to a fraction of a cent, the fractional entitlement will be rounded up to the nearest whole cent.

5.4 Unclaimed monies

(a) Target may cancel a cheque issued under this clause 5.4 if the cheque:

(1) is returned to Target; or

(2) has not been presented for payment within six months after the date on which the cheque was sent.

(b) During the period of 6 years commencing on the Implementation Date, on request in writing from a Scheme Shareholder to Target (or the Share Registry) (which request may not be made until the date which is 5 Business Days after the Implementation Date), Target must reissue a cheque that was previously cancelled under clause 5.4(a).

(c) The *Unclaimed Money Act 1995* (NSW) will apply in relation to any Consideration which becomes 'unclaimed money' (as defined in section 7 of the *Unclaimed Money Act 1995* (NSW).

5.5 Orders of a court or Government Agency

If written notice is given to Target (or the Share Registry) of an order or direction made by a court of competent jurisdiction or by another Government Agency that:

(a) requires consideration to be provided to a third party (either through payment of a sum or the issuance of a security) in respect of Scheme Shares held by a particular Scheme Shareholder, which would otherwise be payable or required to be issued to that Scheme Shareholder by Target in accordance with this clause 5, then Target shall be entitled to procure that provision of that consideration is made in accordance with that order or direction; or

(b) prevents Target from providing consideration to any particular Scheme Shareholder in accordance with clause 5.1(c), or the payment or issuance of such consideration is otherwise prohibited by applicable law, Target shall be entitled to (as applicable) retain an amount, in Australian dollars, equal to the number of Scheme Shares held by that Scheme Shareholder multiplied by the Consideration until such time as provision of the consideration in accordance with this clause 5 is permitted by that order or direction or otherwise by law.

6 Dealings in Target Shares

6.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in Target Shares or other alterations to the Share Register will only be recognised if:

(a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Share Register as the holder of the relevant Target Shares on or before the Record Date; and

(b) in all other cases, registrable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received on or before the Record Date at the place where the Share Register is kept,

and Target must not accept for registration, nor recognise for any purpose (except a transfer to Bidder pursuant to this Scheme and any subsequent transfer by Bidder or its successors in title), any transfer or transmission application or other request received after such times, or received prior to such times but not in registrable or actionable form, as appropriate.

6.2 Register

(a) Target must register registrable transmission applications or transfers of the Scheme Shares in accordance with clause 6.1(b) on or before the Record Date provided that, for the avoidance of doubt, nothing in this clause 6.2(a) requires

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Target to register a transfer that would result in a Target Shareholder holding a parcel of Target Shares that is less than a 'marketable parcel' (for the purposes of this clause 6.2(a) 'marketable parcel' has the meaning given in the Operating Rules).

(b) If this Scheme becomes Effective, a holder of Scheme Shares (and any person claiming through that holder) must not dispose of, or purport or agree to dispose of, any Scheme Shares or any interest in them after the Record Date otherwise than pursuant to this Scheme, and any attempt to do so will have no effect and Target shall be entitled to disregard any such disposal.

(c) For the purpose of determining entitlements to the Consideration, Target must maintain the Share Register in accordance with the provisions of this clause 6.2 until the Consideration has been paid to the Scheme Shareholders. The Share Register in this form will solely determine entitlements to the Consideration.

(d) All statements of holding for Target Shares (other than statements of holding in favour of Bidder) will cease to have effect after the Record Date as documents of title in respect of those shares and, as from that date, each entry current at that date on the Share Register (other than entries on the Share Register in respect of Bidder) will cease to have effect except as evidence of entitlement to the Consideration in respect of the Target Shares relating to that entry.

(e) As soon as possible on or after the Record Date, and in any event within one Business Day after the Record Date, Target will ensure that details of the names, Registered Addresses and holdings of Target Shares for each Scheme Shareholder as shown in the Share Register are available to Bidder in the form Bidder reasonably requires.

7 Quotation of Target Shares.

(a) Target will apply to ASX to suspend trading on the ASX in Target Shares with effect from the close of trading on the Effective Date.

(b) On a date after the Implementation Date to be determined by Bidder, Target will apply:

(1) for termination of the official quotation of Target Shares on the ASX; and

(2) to have itself removed from the official list of the ASX.

8 General Scheme provisions

8.1 Consent to amendments to this Scheme

If the Court proposes to approve this Scheme subject to any alterations or conditions:

(a) Target may by its counsel consent on behalf of all persons concerned to those alterations or conditions to which Bidder has consented; and

(b) each Scheme Shareholder agrees to any such alterations or conditions which counsel for Target has consented to.

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8.2 Scheme Shareholders' agreements and warranties

(a) Each Scheme Shareholder:

(1) agrees to the transfer of their Target Shares together with all rights and entitlements attaching to those Target Shares in accordance with this Scheme;

(2) agrees to the variation, cancellation or modification of the rights attached to their Target Shares constituted by or resulting from this Scheme;

(3) agrees to, on the direction of Bidder, destroy any share certificates relating to their Target Shares;

(4) acknowledges that this Scheme binds Target and all Scheme Shareholders (including those who do not attend the Scheme Meeting or those who do not vote, or vote against this Scheme, at the Scheme Meeting).

(b) Each Scheme Shareholder is taken to have warranted to Target and Bidder on the Implementation Date, and appointed and authorised Target as its attorney and agent to warrant to Bidder on the Implementation Date, that:

(1) all their Target Shares (including any rights and entitlements attaching to those shares) which are transferred under this Scheme will, at the date of transfer, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind; and

(2) they have full power and capacity to transfer their Target Shares to Bidder together with any rights and entitlements attaching to those shares.

Target undertakes that it will provide such warranty to Bidder as agent and attorney of each Scheme Shareholder.

8.3 Title to and rights in Scheme Shares

(a) To the extent permitted by law, the Scheme Shares (including all rights and entitlements attaching to the Scheme Shares) transferred under this Scheme to Bidder will, at the time of transfer of them to Bidder, vest in Bidder free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise and free from any restrictions on transfer of any kind.

(b) Immediately upon the provision of the Consideration to each Scheme Shareholder in the manner contemplated by clause 5, Bidder will be beneficially entitled to the Scheme Shares to be transferred to it under this Scheme pending registration by Target of Bidder in the Share Register as the holder of the Scheme Shares.

8.4 Appointment of sole proxy

Immediately upon the provision of the Consideration to each Scheme Shareholder in the manner contemplated by clause 5, and until Target registers Bidder as the holder of all Scheme Shares in the Share Register, each Scheme Shareholder:

(a) is deemed to have appointed Bidder as attorney and agent (and directed Bidder in each such capacity) to appoint any director, officer, secretary or agent nominated by Bidder as its sole proxy and, where applicable or appropriate, corporate representative to attend shareholders' meetings, exercise the votes attaching to the Scheme Shares registered in their name and sign any shareholders' resolution;

(b) must not attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to clause 8.4(a));

(c) must take all other actions in the capacity of a registered holder of Scheme Shares as Bidder reasonably directs; and

(d) acknowledges and agrees that in exercising the powers conferred by clause 8.4(a), Bidder and any director, officer, secretary or agent nominated by Bidder under that clause may act in the best interests of Bidder as the intended registered holder of the Scheme Shares.

8.5 Authority given to Target

Each Scheme Shareholder, without the need for any further act:

(a) on the Effective Date, irrevocably appoints Target and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purpose of enforcing the Deed Poll against Bidder's Guarantor and Bidder, and Target undertakes in favour of each Scheme Shareholder that it will enforce the Deed Poll against Bidder's Guarantor and Bidder on behalf of and as agent and attorney for each Scheme Shareholder; and

(b) on the Implementation Date, irrevocably appoints Target and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purpose of executing any document or doing or taking any other act necessary, desirable or expedient to give effect to this Scheme and the transactions contemplated by it, including (without limitation) executing the Scheme Transfer,

and Target accepts each such appointment. Target as attorney and agent of each Scheme Shareholder, may sub-delegate its functions, authorities or powers under this clause 8.5 to all or any of its directors, officers, secretaries or employees (jointly, severally or jointly and severally).

8.6 Binding effect of Scheme

This Scheme binds Target and all of the Scheme Shareholders (including those who did not attend the Scheme Meeting to vote on this Scheme, did not vote at the Scheme Meeting, or voted against this Scheme at the Scheme Meeting) and, to the extent of any inconsistency, overrides the constitution of Target.

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9 General

9.1 Stamp duty

Bidder will:

(a) pay all stamp duty and any related fines and penalties in respect of this Scheme and the Deed Poll, the performance of the Deed Poll and each transaction effected by or made under or in connection with this Scheme and the Deed Poll; and

(b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 9.1(a).

9.2 Consent

Each of the Scheme Shareholders consents to Target doing all things necessary or incidental to the implementation of this Scheme.

9.3 Notices

(a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Target, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Target's registered office or at the office of the Share Registry.

(b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such notice by a Target Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

9.4 Governing law

(a) This Scheme is governed by the laws in force in New South Wales, Australia.

(b) The parties irrevocably submit to the non-exclusive jurisdiction of courts exercising jurisdiction in New South Wales and courts of appeal from them in respect of any proceedings arising out of or in connection with this Scheme. The parties irrevocably waive any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

9.5 Further action

Target must do all things and execute all documents necessary to give full effect to this Scheme and the transactions contemplated by it.

9.6 No liability when acting in good faith

None of Target, Bidder nor Bidder's Guarantor nor any director, officer, secretary or employee of Target will be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll in good faith.

HERBERT SMITH FREEHILLS

Schedule 1

Definitions and interpretation

1 Definitions

The meanings of the terms used in this Scheme are set out below.

Term	Meaning
Bidder's Guarantor	Woolworths Holdings Limited (Registration Number 1929/001986/06) of 99 Longmarket Street, Cape Town 8001, South Africa.
Bidder	Vela Investments Pty Limited ACN 168 920 447 of Level 37, 2 Park Street, Sydney NSW 2000.
ASIC	the Australian Securities and Investments Commission.
ASX	ASX Limited ABN 98 008 624 691 and, where the context requires, the financial market that it operates.
Business Day	business day as defined in the Listing Rules.
CHESS	the Clearing House Electronic Subregister System operated by ASX Settlement Pty Ltd and ASX Clear Pty Limited.
Consideration	means, in respect of each Scheme Share, $4.00.
Corporations Act	the *Corporations Act 2001* (Cth).
Corporations Regulations	the *Corporations Regulations 2001* (Cth).
Court	the Federal Court of Australia or such other court of competent jurisdiction under the Corporations Act agreed to in writing by Bidder and Target.

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Term	Meaning
Deed Poll	the deed poll substantially in the form of Attachment 1 under which Bidder covenants in favour of the Scheme Shareholders to perform the obligations attributed to it under this Scheme.
Effective	when used in relation to this Scheme, the coming into effect, under subsection 411(10) of the Corporations Act, of the Court order made under paragraph 411(4)(b) of the Corporations Act in relation to this Scheme.
Effective Date	the date on which this Scheme becomes Effective.
End Date	23 September 2014, or such other date as agreed in writing by Bidder and Target.
Government Agency	any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state, or any other federal, state, provincial, local or other government, whether foreign or Australian. It also includes any self-regulatory organisation established under statute or otherwise discharging substantially public or regulatory functions (including ASIC and the Takeovers Panel), the South African Reserve Bank and any stock exchange (including ASX and JSE Limited).
Implementation Date	the fifth Business Day after the Record Date, or such other date as agreed in writing by Target and Bidder.
Implementation Deed	the scheme implementation deed dated 9 April 2014 between Target, Bidder's Guarantor and Bidder relating to the implementation of this Scheme.
Listing Rules	the official listing rules of ASX.
Operating Rules	the official operating rules of ASX.
Record Date	7.00pm on the fifth Business Day after the Effective Date.
Registered Address	in relation to a Target Shareholder, the address shown in the Share Register as at the Record Date.

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Term	Meaning
Scheme	this scheme of arrangement under Part 5.1 of the Corporations Act between Target and the Scheme Shareholders subject to any alterations or conditions made or required by the Court under subsection 411(6) of the Corporations Act and agreed to by Target and Bidder.
Scheme Meeting	the meeting of the Scheme Shareholders ordered by the Court to be convened under subsection 411(1) of the Corporations Act to consider and vote on this Scheme and includes any meeting convened following any adjournment or postponement of that meeting.
Scheme Shares	a Target Share held by a Scheme Shareholder as at the Record Date.
Scheme Shareholder	a Target Shareholder as at the Record Date.
Scheme Transfer	a duly completed and executed proper instrument of transfer in respect of the Scheme Shares for the purposes of section 1071B of the Corporations Act, in favour of Bidder as transferee, which may be a master transfer of all or part of the Scheme Shares.
Second Court Date	the first day on which an application made to the Court for an order under paragraph 411(4)(b) of the Corporations Act approving this Scheme is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard, with such hearing being the **Second Court Hearing**.
Share Register	the register of Target Shareholders maintained in accordance with the Corporations Act.
Share Registry	Computershare Investor Services Pty Limited ABN 48 078 279 277 of level 4, 60 Carrington Street, Sydney, NSW, Australia 2000.
subsidiary	has the meaning given in Division 6 of Part 1.2 of the Corporations Act.
Takeovers Panel	the Takeovers Panel constituted under the *Australian Securities and Investments Commission Act 2001* (Cth)
Target Share	a fully paid ordinary share in the capital of Target.
Target Shareholder	a person who is registered as the holder of one or more Target Shares,

Term	Meaning
	as shown in the Share Register.

2 Interpretation

In this Scheme:

(a) headings and bold type are for convenience only and do not affect the interpretation of this Scheme;

(b) the singular includes the plural and the plural includes the singular;

(c) words of any gender include all genders;

(d) other parts of speech and grammatical forms of a word or phrase defined in this Scheme have a corresponding meaning;

(e) a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and any Government Agency as well as an individual;

(f) a reference to a clause, party, part, schedule, attachment or exhibit is a reference to a clause or part of, and a party, schedule, attachment or exhibit to, this Scheme;

(g) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or reenactments of any of them;

(h) a reference to a document (including this Scheme) includes all amendments or supplements to, or replacements or novations of, that document;

(i) a reference to '$', 'A$' or 'dollar' is to Australian currency unless denominated otherwise;

(j) a reference to any time is, unless otherwise indicated, a reference to that time in Sydney;

(k) a term defined in or for the purposes of the Corporations Act has the same meaning when used in this Scheme;

(l) a reference to a party to a document includes that party's successors and permitted assignees;

(m) no provision of this Scheme will be construed adversely to a party because that party was responsible for the preparation of this Scheme or that provision;

(n) any agreement, representation, warranty or indemnity by two or more parties (including where two or more persons are included in the same defined term) binds them jointly and severally;

(o) any agreement, representation, warranty or indemnity in favour of two or more parties (including where two or more persons are included in the same defined term) is for the benefit of them jointly and severally; and

(p) a reference to a body, other than a party to this Scheme (including an institute, association or authority), whether statutory or not:

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(1) which ceases to exist; or

(2) whose powers or functions are transferred to another body,

is a reference to the body which replaces it or which substantially succeeds to its powers or functions.

3 Interpretation of inclusive expressions

Specifying anything in this Scheme after the words 'include' or 'for example' or similar expressions does not limit what else is included.

4 Business Day

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

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Attachment 1

Deed Poll

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E

ANNEXURE E
DEED POLL

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SMITH
FREEHILLS

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Deed

Share scheme deed poll

Vela Investments Pty Limited

Woolworths Holdings Limited

ANZ Tower 161 Castlereagh Street Sydney NSW 2000 Australia
GPO Box 4227 Sydney NSW 2001 Australia

T +61 2 9225 5000 **F** +61 2 9322 4000
herbertsmithfreehills.com DX 361 Sydney

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Share scheme deed poll

Date ► 10 May 2014

This deed poll is made

By	**Vela Investments Pty Limited** ACN 168 920 447 of Level 37, 2 Park Street, Sydney NSW 2000 (**Bidder**) **Woolworths Holdings Limited** Registration Number 1929/001986/06 of 99 Longmarket Street, Cape Town 8001, South Africa (**Bidder's Guarantor**)
in favour of	each person registered as a holder of fully paid ordinary shares in Target in the Share Register as at the Record Date.
Recitals	1 Target, Bidder's Guarantor and Bidder entered into the Implementation Deed. 2 In the Implementation Deed, Bidder's Guarantor and Bidder agreed to make this deed poll. 3 Bidder's Guarantor and Bidder are making this deed poll for the purpose of covenanting in favour of the Scheme Shareholders to perform their obligations under the Implementation Deed and the Scheme.

This deed poll provides as follows:

1 Definitions and interpretation

1.1 Definitions

(a) The meanings of the terms used in this deed poll are set out below.

Term	Meaning
First Court Date	the first day on which an application made to the Court for orders under subsection 411(1) of the Corporations Act directing Target to convene the Scheme Meeting is heard (or if the application is

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Term	Meaning
	adjourned or subject to appeal for any reason, the day on which the adjourned application is heard) with such hearing being the **First Court Hearing**.
Implementation Deed	the scheme implementation deed entered into between Target, Bidder's Guarantor and Bidder dated 9 April 2014.
Scheme	the members scheme of arrangement under Part 5.1 of the Corporations Act between Target and the Scheme Shareholders, the form of which is set out in Attachment 1, subject to any alterations or conditions made or required by the Court under subsection 411(6) of the Corporations Act and agreed to by Bidder and Target.

(b) Unless the context otherwise requires, terms defined in the Scheme have the same meaning when used in this deed poll.

1.2 Interpretation

Sections 2, 3 and 4 of Schedule 1 of the Scheme apply to the interpretation of this deed poll, except that references to 'this Scheme' are to be read as references to 'this deed poll'.

1.3 Nature of deed poll

Bidder's Guarantor and Bidder acknowledge and agree that:

(a) this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not party to it; and

(b) under the Scheme, each Scheme Shareholder irrevocably appoints Target and each of its directors, officers and secretaries (jointly and each of them severally) as its agent and attorney to enforce this deed poll against Bidder's Guarantor and Bidder.

2 Conditions to obligations

2.1 Conditions

This deed poll and the obligations of Bidder's Guarantor and Bidder under this deed poll are subject to the Scheme becoming Effective.

2.2 Termination

The obligations of Bidder's Guarantor and Bidder under this deed poll to the Scheme Shareholders will automatically terminate and the terms of this deed poll will be of no force or effect if:

(a) the Implementation Deed is terminated in accordance with its terms; or

(b) the Scheme is not Effective by the End Date,

unless Bidder's Guarantor, Bidder and Target otherwise agree in writing.

2.3 Consequences of termination

If this deed poll terminates under clause 2.2, in addition and without prejudice to any other rights, powers or remedies available to it:

(a) Bidder's Guarantor and Bidder are released from their obligations to further perform this deed poll except those obligations under clause 7.1; and

(b) each Scheme Shareholder retains the rights they have against Bidder's Guarantor and Bidder in respect of any breach of this deed poll which occurred before it was terminated.

3 Scheme obligations

3.1 Undertaking to pay Scheme Consideration

Subject to clause 2, Bidder undertakes in favour of each Scheme Shareholder (and Bidder's Guarantor undertakes in favour of each Scheme Shareholder to unconditionally and irrevocably guarantee the obligation of Bidder) to:

(a) deposit, or procure the deposit of, in cleared funds, by no later than the Business Day before the Implementation Date, an amount equal to the aggregate amount of the Scheme Consideration payable to all Scheme Shareholders under the Scheme into an Australian dollar denominated trust account operated by Target as trustee for the Scheme Shareholders, except that any interest on the amounts deposited (less bank fees and other charges) will be credited to Bidder's account; and

(b) undertake all other actions attributed to it under the Scheme,

subject to and in accordance with the terms of the Scheme.

4 Warranties

Each of Bidder's Guarantor and Bidder represents and warrants that:

(a) it is a corporation validly existing under the laws of its place of registration;

(b) it has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;

(c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the

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performance of this deed poll and to carry out the transactions contemplated by this deed poll;

(d) this deed poll is valid and binding on it and enforceable against it in accordance with its terms; and

(e) this deed poll does not conflict with, or result in the breach of or default under, any provision of its constitution, or any writ, order or injunction, judgment, law, rule or regulation to which it is a party or subject or by which it is bound.

5 Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

(a) Bidder's Guarantor and Bidder have each fully performed their obligations under this deed poll; or

(b) the earlier termination of this deed poll under clause 2.

6 Notices

6.1 Form of Notice

A notice or other communication in respect of this deed poll (**Notice**) must be:

(a) in writing and in English and signed by or on behalf of the sending party; and

(b) addressed to Bidder's Guarantor or Bidder in accordance with the details set out below (or any alternative details nominated by Bidder's Guarantor or Bidder by Notice).

Attention	Ralph Buddle
Address	Woolworths House 93 Longmarket Street Cape Town 8001 South Africa
Email address	ralphbuddle@woolworths.co.za

6.2 How Notice must be given and when Notice is received

(a) A Notice must be given by one of the methods set out in the table below.

(b) A Notice is regarded as given and received at the time set out in the table below.

However, if this means the Notice would be regarded as given and received outside the period between 9.00am and 5.00pm (addressee's time) on a Business Day (**business hours period**), then the Notice will instead be regarded as given and received at the start of the following business hours period.

Method of giving Notice	When Notice is regarded as given and received
By hand to the nominated address	When delivered to the nominated address
By pre-paid post to the nominated address	At 9.00am (addressee's time) on the second Business Day after the date of posting
By fax to the nominated fax number	At the time indicated by the sending party's transmission equipment as the time that the fax was sent in its entirety. However, if the recipient party informs the sending party within 4 hours after that time that the fax transmission was illegible or incomplete, then the Notice will not be regarded as given or received. When calculating this 4 hour period, only time within a business hours period is to be included.
By email to the nominated email address	When the email (including any attachment) comes to the attention of the recipient party or a person acting on its behalf.

6.3 Notice must not be given by electronic communication

A Notice must not be given by electronic means of communication (other than fax and email as permitted in clause 6.2).

7 General

7.1 Stamp duty

Bidder will (and Bidder's Guarantor will procure that Bidder will):

(a) pay all stamp duty and any related fines and penalties in respect of the Scheme and this deed poll, the performance of this deed poll and each transaction effected by or made under the Scheme and this deed poll; and

(b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 7.1(a).

7.2 Governing law and jurisdiction

(a) This deed poll is governed by the law in force in New South Wales, Australia.

(b) Bidder's Guarantor and Bidder irrevocably submits to the non-exclusive jurisdiction of courts exercising jurisdiction in New South Wales and courts of appeal from them in respect of any proceedings arising out of or in connection with this deed poll. Bidder's Guarantor and Bidder irrevocably waives any

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objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

7.3 Waiver

(a) Bidder's Guarantor and Bidder may not rely on the words or conduct of any Scheme Shareholder as a waiver of any right unless the waiver is in writing and signed by the Scheme Shareholder granting the waiver.

(b) No Scheme Shareholder may rely on words or conduct of Bidder's Guarantor or Bidder as a waiver of any right unless the waiver is in writing and signed by Bidder's Guarantor or Bidder.

(c) The meanings of the terms used in this clause 7.3 are set out below.

Term	Meaning
conduct	includes delay in the exercise of a right.
right	any right arising under or in connection with this deed and includes the right to rely on this clause.
waiver	includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel.

7.4 Variation

A provision of this deed poll may not be varied unless:

(a) if before the First Court Date, the variation is agreed to by Target; or

(b) if on or after the First Court Date, the variation is agreed to by Target and the Court indicates that the variation would not of itself preclude approval of the Scheme,

in which event Bidder's Guarantor and Bidder will enter into a further deed poll in favour of the Scheme Shareholders giving effect to the variation.

7.5 Cumulative rights

The rights, powers and remedies of Bidder's Guarantor, Bidder and the Scheme Shareholders under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

7.6 Assignment

(a) The rights created by this deed poll are personal to Bidder's Guarantor, Bidder and each Scheme Shareholder and must not be dealt with at law or in equity without the prior written consent of Bidder's Guarantor and Bidder.

(b) Any purported dealing in contravention of clause 7.6(a) is invalid.

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7.7 Joint and several obligations

Bidder's Guarantor and Bidder are jointly and severally liable for each obligation imposed on both of them by the terms of this deed poll.

7.8 Further action

Bidder's Guarantor and Bidder must, at their own expense, do all things and execute all documents necessary to give full effect to this deed poll and the transactions contemplated by it.

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HERBERT SMITH FREEHILLS

Attachment 1

Scheme

Please refer to Annexure D of Scheme Booklet

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HERBERT SMITH FREEHILLS

Signing page

Executed as a deed poll

Bidder

Signed sealed and delivered by
Vela Investments Pty Limited
by

sign here ►
Company Secretary/Director

print name Janine Rolfe

sign here ►
Director

print name Ian Moir

Bidder's Guarantor

Signed sealed and delivered by
Woolworths Holdings Limited
by

sign here ►
Company Secretary/Director

print name Reeza Isaacs

sign here ►
Director

print name Ian Moir

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F

ANNEXURE F
NOTICE OF SCHEME MEETING

David Jones Limited ACN 000 074 573 (**David Jones**)

Notice is hereby given that, by an order of the Federal Court of Australia made on 22 May 2014, pursuant to subsection 411(1) of the Corporations Act, a meeting of David Jones Shareholders will be held at the Wesley Conference Centre, 220 Pitt Street, Sydney, New South Wales on Monday 30 June 2014, commencing at 10.00am (Sydney time).

Purpose of the meeting

The purpose of the meeting is to consider and, if thought fit, to agree to a scheme of arrangement (with or without any alterations or conditions required by the Federal Court to which David Jones, Vela Investments and Woolworths agree) proposed to be made between David Jones and David Jones Shareholders (the **Scheme**).

A copy of the Scheme and a copy of the explanatory statement required by section 412 of the Corporations Act in relation to the Scheme are contained in the Scheme Booklet, of which this notice forms part.

Scheme Resolution

The meeting will be asked to consider and, if thought fit, pass the following Scheme Resolution:

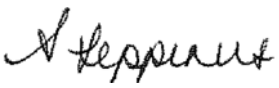
'That, pursuant to and in accordance with the provisions of section 411 of the *Corporations Act 2001* (Cth), the scheme of arrangement proposed between David Jones Limited and the holders of its ordinary shares, as contained in and more particularly described in the Scheme Booklet of which the notice convening this meeting forms part, is approved, with or without alterations or conditions as approved by the Federal Court of Australia to which David Jones Limited, Vela Investments Pty Ltd and Woolworths Holdings Limited agree.'

Chairman

The Federal Court has directed that Gordon Cairns is to act as chairman of the meeting (and that, if Gordon Cairns is unable or unwilling to attend, Melinda Conrad is to act as chairman of the meeting) and has directed the chairman to report the result of the Scheme Resolution to the Federal Court.

Dated 22 May 2014

By order of the Federal Court and the David Jones Board



Company Secretary
Susan Leppinus

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EXPLANATORY NOTES

1 General

This notice should be read in conjunction with the Scheme Booklet of which it forms part. The Scheme Booklet contains important information to assist you in determining how to vote on the Scheme Resolution.

A copy of the Scheme is set out in Annexure D of the Scheme Booklet.

Capitalised terms used but not defined in this notice have the defined meanings set out in Section 13 of the Scheme Booklet, unless the context otherwise requires.

2 Shareholder approval

For the proposed Scheme to be binding in accordance with section 411 of the Corporations Act, the Scheme Resolution must be approved by:

- unless the Federal Court orders otherwise, a majority in number of David Jones Shareholders present and voting (either in person or by proxy, attorney or, in the case of corporate David Jones Shareholders, body corporate representative) at the Scheme Meeting; and
- at least 75% of the votes cast on the Scheme Resolution (either in person or by proxy, attorney or, in the case of corporate David Jones Shareholders, body corporate representative).

3 Federal Court approval

Under paragraph 411(4)(b) of the Corporations Act, the Scheme (with or without any alteration or condition required by the Federal Court) is subject to the approval of the Federal Court. If the Scheme Resolution put to the Scheme Meeting is passed by the requisite majorities and the other Conditions Precedent to the Scheme (other than approval by the Federal Court) are satisfied or waived by the time required under the Scheme, David Jones intends to apply to the Federal Court for the necessary orders to give effect to the Scheme.

In order for the Scheme to become Effective, it must be approved by the Federal Court and an office copy of the orders must be lodged with ASIC.

4 Entitlement to vote

Under section 411 of the Corporations Act and all other enabling powers, the Federal Court has determined that the time for determining eligibility to vote at the Scheme Meeting is 7.00pm (Sydney time) on Saturday 28 June 2014. Only those David Jones Shareholders entered on the Share Register at that time will be entitled to attend and vote at the meeting, in person, by proxy (including proxies lodged online) or attorney, or in the case of a corporate David Jones Shareholder, by a body corporate representative. The remaining comments in these explanatory notes are addressed to David Jones Shareholders entitled to attend and vote at the meeting.

5 How to vote

Voting will be conducted by poll. If you are a David Jones Shareholder entitled to vote at the meeting, you may vote by:

- attending and voting in person;
- appointing one or two proxies to attend and vote on your behalf, using the proxy form that accompanied this Scheme Booklet (which may be lodged online);
- appointing one or two attorneys to attend and vote on your behalf, using a power of attorney; or
- in the case of a body corporate, appointing a body corporate representative to attend the meeting and vote on your behalf, using a certificate of appointment of body corporate representative.

6 Attendance

If you or your proxies, attorneys or representative(s) plan to attend the meeting, please arrive at the venue at least 30 minutes before the scheduled time for commencement of the meeting, so that your shareholding can be checked against the Share Register, any power of attorney or certificate of appointment of body corporate representative verified, and your attendance noted.

7 Jointly held securities

If you hold David Jones Shares jointly with one or more other persons, only one of you may vote. If more than one of you attempts to vote in person at the meeting, only the vote of the holder whose name appears first on the Share Register will be counted.

8 Voting

8.1 Voting in person

To vote in person, you must attend the meeting.

Eligible David Jones Shareholders who wish to attend and vote at the meeting in person will be admitted and given a voting card at the point of entry to the meeting, once they have disclosed their name and address.

8.2 Voting by proxy

You may appoint one or two proxies. Your proxy need not be another David Jones Shareholder. Each proxy will have the right to vote on the poll and also to speak at the meeting.

To appoint a proxy, you should complete and return the proxy form that accompanied this Scheme Booklet in accordance with the instructions on that form. The signed and completed proxy form must be received by the David Jones Share Registry by 10:00am (Sydney time) on Saturday, 28 June 2014 other than proxy forms delivered by hand which must be received by the David Jones Share Registry by 5:00pm (Sydney time) on Friday, 27 June 2014 (or, if the meeting is adjourned or postponed, no later than 48 hours before the resumption of the meeting in relation to the resumed part of the meeting) in any of the following ways:

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(a) online:

- if you are a David Jones Shareholder, at www.investorvote.com.au using your SRN/HIN number (as applicable) along with the control number noted on the front of your proxy form; and
- if you are a custodian (for intermediary online subscribers only), at www.intermediaryonline.com,

and by following the instructions on that website.

(b) by post in the provided reply paid envelope to the David Jones Share Registry:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001

(c) by hand delivery[24] to the David Jones Share Registry:

Computershare Investor Services Pty Limited
Level 4
60 Carrington Street
Sydney NSW 2000

(d) by fax to the David Jones Share Registry on:

1800 783 447 (within Australia) or
+61 3 9473 2555 (outside Australia).

Proxy forms received after this time will be invalid.

If a proxy form is completed under power of attorney or other authority, the power of attorney or other authority, or a certified copy of the power of attorney or other authority, must accompany the completed proxy form (and be received by the David Jones Share Registry by 5:00pm (Sydney time) on Friday, 27 June 2014) unless the power of attorney or other authority has previously been noted by the David Jones Share Registry.

A vote given in accordance with the terms of a proxy appointment is valid despite the revocation of that appointment, unless notice in writing of the revocation has been received by the David Jones Share Registry by 10:00am (Sydney time) on Saturday 28 June 2014 other than such notice of revocation delivered by hand which must be received by the David Jones Share Registry by 5:00pm (Sydney time) on Friday, 27 June 2014 (or, if the meeting is adjourned or postponed, no later than 48 hours before the resumption of the meeting in relation to the resumed part of the meeting) in any of the ways described in paragraphs 8.2(b), 8.2(c) or 8.2(d) above.

If you wish to appoint a second proxy, you should use the same proxy form. Each proxy should be appointed to represent a specified proportion of your voting rights. If you do not specify the proportions in the proxy form, each proxy may exercise half of your votes with any fractions of votes disregarded.

Replacement proxy forms can be obtained from the David Jones Share Registry.

If you hold David Jones Shares jointly with one or more other persons, in order for your proxy appointment to be valid, each of you must sign the proxy form.

You should consider how you wish your proxy to vote. That is, whether you want your proxy to vote 'For' or 'Against', or abstain from voting on, the Scheme Resolution, or whether to leave the decision to the proxy after he or she has considered the matters discussed at the meeting.

If you do not direct your proxy how to vote on an item of business, the proxy may vote, or abstain from voting, as he or she thinks fit. If you instruct your proxy to abstain from voting on an item of business, he or she is directed not to vote on your behalf, and the shares the subject of the proxy appointment will not be counted in computing the required majority.

If you return your proxy form:

- without identifying a proxy on it, you will be taken to have appointed the chairman of the meeting as your proxy to vote on your behalf; or
- with a proxy identified on it but your proxy does not attend the meeting, the chairman of the meeting will act in place of your nominated proxy and vote in accordance with any directions on your proxy form.

The chairman of the meeting intends to vote all valid undirected proxies which nominate the chairman in favour of the Scheme Resolution, in the absence of a Superior Proposal.

Proxies of eligible David Jones Shareholders will be admitted to the meeting and given a voting card on providing at the point of entry to the meeting written evidence of their name and address.

Your appointment of a proxy does not preclude you from attending in person, revoking the proxy and voting at the meeting.

8.3 Voting by attorney

You may appoint one or two attorneys to attend and vote at the meeting on your behalf. Your attorney need not be another David Jones Shareholder. Each attorney will have the right to vote on the poll and also to speak at the meeting.

The power of attorney appointing your attorney to attend and vote at the meeting must be duly executed by you and specify your name, the company (that is, David Jones), and the attorney, and also specify the meetings at which the appointment may be used. The appointment may be a standing one.

The power of attorney, or a certified copy of the power of attorney, should be lodged at the registration desk on the day of the meeting or be received by the David Jones Share Registry by 10:00am (Sydney time) on Saturday, 28 June 2014 other than such powers of attorney delivered by hand which must be received by the David Jones Share Registry by 5:00pm (Sydney time) on Friday, 27 June 2014 (or, if the meeting is adjourned or postponed, no later than 48 hours before the resumption of the meeting in relation to the resumed part of the meeting) in any of the following ways:

[24] Please note that hand deliveries may only be made Monday to Friday between the hours of 9:00am and 5:00pm (Sydney time).

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(a) by post in the provided reply paid envelope to the David Jones Share Registry:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001

(b) by hand delivery[25] to the David Jones Share Registry:

Computershare Investor Services Pty Limited
Level 4
60 Carrington Street
Sydney NSW 2000

(c) by fax to the David Jones Share Registry on:

1800 783 447 (within Australia) or
+61 3 9473 2555 (outside Australia).

Attorneys of eligible David Jones Shareholders will be admitted to the meeting and given a voting card on providing at the point of entry to the meeting, written evidence of their appointment, their name and address, and the name of their appointors.

Your appointment of an attorney does not preclude you from attending in person and voting at the meeting.

8.4 Voting by corporate representative

If you are a body corporate, you may appoint an individual to act as your body corporate representative. The appointment must comply with the requirements of section 250D of the Corporations Act, meaning that David Jones will require a certificate of appointment of body corporate representative to be executed by you in accordance with the Corporations Act. A form of certificate may be obtained by calling the David Jones Shareholder Information Line on 1300 580 123 (from within Australia) or +61 3 9415 4339 (from outside Australia) Monday to Friday between 9:00am to 5:00pm (Sydney time). The certificate of appointment may set out restrictions on the representative's powers.

The certificate should be lodged at the registration desk on the day of the meeting or be received by the David Jones Registry by 10.00am (Sydney time) on Saturday, 28 June 2014 other than such certificates delivered by hand which must be received by the David Jones Share Registry by 5:00pm (Sydney time) on Friday, 27 June 2014 (or, if the meeting is adjourned or postponed, no later than 48 hours before the resumption of the meeting in relation to the resumed part of the meeting) in any of the following ways:

(a) by post in the provided reply paid envelope to the David Jones Share Registry:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001

(b) by hand delivery[26] to the David Jones Share Registry:

Computershare Investor Services Pty Limited
Level 4
60 Carrington Street
Sydney NSW 2000

(c) by fax to the David Jones Share Registry on:

1800 783 447 (within Australia) or
+61 3 9473 2555 (outside Australia).

If a certificate is completed by an individual or corporation under power of attorney, the power of attorney, or a certified copy of the power of attorney, must accompany the completed certificate unless the power of attorney has previously been noted by the David Jones Share Registry.

Body corporate representatives of eligible David Jones Shareholders will be admitted to the meeting and given a voting card on providing at the point of entry to the meeting, written evidence of their appointment, their name and address and the name of their appointors.

9 Advertisement

Where this Notice of Scheme Meeting is advertised unaccompanied by the Scheme Booklet, a copy of the Scheme Booklet can be obtained by anyone entitled to attend the Scheme Meeting from David Jones' website (http://www.davidjones.com.au/For-Investors/ASX-and-Media-Releases), from the ASX website (www.asx.com.au) or by contacting the Company Secretary of David Jones or the David Jones Share Registry.

[25] Please note that hand deliveries may only be made Monday to Friday between the hours of 9:00am and 5:00pm (Sydney time).

[26] Please note that hand deliveries may only be made Monday to Friday between the hours of 9:00am and 5:00pm (Sydney time).

CORPORATE DIRECTORY

Principal Administration Office and Principal Registered Office

86 - 108 Castlereagh Street
Sydney NSW 2000
Facsimile: (02) 9261 5717 - Corporate

Investor Enquiries

David Jones Shareholder Information Line
Computershare

Within Australia: 1300 580 123
Outside Australia: +61 3 9415 4339

Operational Monday to Friday from 9:00am to 5:00pm

David Jones Share Registry

Computershare Investor Services Pty Limited
ABN 48 078 279 277
Level 4, 60 Carrington Street
Sydney NSW 2000 Australia

Financial Advisers

Gresham Advisory Partners Limited
Level 17, 167 Macquarie Street
Sydney NSW 2000 Australia

Macquarie Capital (Australia) Limited
No.1 Martin Place
Sydney NSW 2000

Legal Adviser

Herbert Smith Freehills
ANZ Tower
161 Castlereagh Street
Sydney NSW 2000

Stock Exchange Listings

David Jones ordinary shares are quoted by the Australian Securities Exchange (ASX: DJS).

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SCHEME BOOKLET