

CHIEF EXECUTIVE OFFICER'S ADDRESS TO SHAREHOLDERS

8.9.16

Again, a warm welcome to all our shareholders, and I thank you for your continued support of Smiths City. We have a great company and it deserves your long-term support and I can assure you that this will be reflected in increased returns to you.

As this is my second address to you I thought it appropriate to reflect a little on the past year, but most importantly, I want to focus on our future, the opportunities we see and our read of the overall environment.

Turning to the year in review, it has been a busy, challenging and rewarding year. It is to the credit of our team that during one of the fastest periods of change that our business has experienced in a long time, we did not lose sight of our focus on, and our need to, increase sales & our share in the NZ market.

To reposition Smiths City to be competitive in 2017, 2018 and beyond, no less than 21 initiatives were undertaken throughout the company to review, challenge and identify the optimum operational platform for Smiths City. From engaging best in class external specialist practitioners such as Hyde Group, Colmar Brunton & Kerr Logistics to help us correctly shape and understand our market and

our business, to deeply connecting and engaging with all our team to identify the DNA that makes Smiths City the great company that it is. We challenged *every* aspect of our Group's operation.

The result is a leaner, more efficient, revitalised company that resonated with our most challenging critic, the New Zealand Shopper. During 2015 & continuing in 2016, they voted in favour of these changes by shopping more and spending more than in previous years. Our intent is to continue to delight our customers and ensure that more of New Zealand has the opportunity to enjoy our service and merchandise offering that those in the South have enjoyed and valued for over 98 years.

I am confident that we have delivered on the commitments I made to you, our shareholders on the 25th of August last year. However our journey to reposition and revitalise Smiths City is far from over and there remains much to be done.

We now need to turn our focus on delivering the best shopping experience to our customer – we will benchmark this nationally and internationally to ensure that we are positioned and perceived to be best in class. This will take investment in both capital and time to complete. With our purchase of Furniture City in Auckland this year we now own and operate a network of 36 large format stores

(including our outlet stores) – all of which need, to a lesser or greater degree, new investment in their retail presentation to keep pace with the ever changing retail experiences offered by our direct and indirect competition. To ensure that we maximise this investment we have partnered with Studio Gascoigne, New Zealand’s leading retail spatial design consultancy. Based on their input we will refresh and revitalise our retail instore experience, rolling out this new look over the next three years. Bryce, our National Sales Manager, and his team are inspired and enthusiastic on the new direction, and I know that they will maximise the business and brand opportunity this major investment represents.

A great customer experience is nothing without compelling, well priced merchandise that resonates with our shoppers and clearly demonstrates the quality and value that we stand for – attributes that I believe clearly differentiate us from those that choose to compete with us. With this in mind we have completely refocused our product selection and ranging under Jared, who joined our exec team in early 2016. While we continue to believe that having a broad multi category offer is a core competitive advantage to us, we are working hard to ensure that those categories that we choose to compete in are presented in a compelling and attractive manner to our shoppers. We

also recognise that there are regional differences throughout New Zealand and have factored this into how we will select and present the category ranges in all our stores.

Having a great offering and attractive stores is nothing if you can't communicate it compellingly to the market. Under the guidance of Peter, who also joined in 2016, and based on our market research, we have commenced the launch of "Live Better" as a platform from which to communicate both our marketing and store experiences to shoppers. Peter and his team are also hard at work integrating our online and our core "bricks and mortar" offer so we can present one unified, aligned retail opportunity to the shopper, however and wherever they choose to engage with us.

One of the most significant things that contributes to the success of this business and brand is our people, at all levels of the operation. Over the past year, Valerie & her team have reviewed all aspects of how we reward and care for our team including a significant investment in Health & Safety initiatives to ensure that we do not put any of our team in harms way. This formed part of an extensive and collaborative reset on the Smiths City Group mission and values that Valerie led, and has resulted in a guiding set of principles that we all

aspire to and how we all want to conduct ourselves within and outside of the business – including myself and the board.

The common thread that binds and unites Smiths City is our fundamental belief in treating our team fairly, celebrating successes and recognising those that have gone the extra mile in delivering the Smiths City Customer experience and growing our revenue. Over 18% of our direct store staff claim proud membership of our elite sales achievers club, the Million Dollar Club. Their achievement is celebrated annually here in the Commodore Hotel.

A core component of the retail success matrix is ensuring that we have the lowest cost to market. We have Brendon (who also joined this year) working on realigning our logistic and fulfilment platforms that will provide material cost savings and reduce our replenishment times over the coming years.

Smiths City also has another core advantage not enjoyed by any of its competitors, namely that of owning our own Finance Company. This means that we retain ALL the profit of providing a finance solution to our shoppers in the Group and can return this profit in part to you, the shareholders, via dividend payments. We see the Finance Company as a fundamental enabler of our retail business and also providing to the Group significant opportunity for growth, both

within, and external to, our core retail business. To facilitate these opportunities we have embarked on a refreshment of the current financial products offered - the best example being the introduction of our new Interest Free offer and the demise of Easy Pay. Further product enhancements are planned and the release of these are to some degree, dependant on the work currently underway on our finance and information platforms and systems led by Noel & his team. Concurrent with these initiatives, we have engaged a highly capable specialist Customer Relationships Manager to assist in intensifying and deepening our relationships with our customer base. So as you have heard today, we are not standing still as a business; the phrase “business as usual” is no longer appropriate when seeking to describe Smiths City. Far from it. While we have an initial foothold presence in the large Auckland market, we are aware that we need to build our network across New Zealand as well as strengthening the presence we have in Auckland. We are also looking very closely at site opportunities in Hamilton, the Hawkes Bay and Wellington regions. I want to emphasise that we believe having a strong physical retail network facilitates our online offering and with over 46% of our online purchases being “click and collected” at one of our stores nationwide; this also has the added

benefit of providing the opportunity for additional sales at the time of collection and beyond.

So where to for Smiths City in the coming years? We clearly see opportunity to expand and take share from the competition as it currently exists and to provide a strong barrier to entry for others considering the New Zealand market.

It has been a rewarding and challenging year, on many levels. It has also been financially rewarding for the shareholders as we now can start to share the success of the year's efforts. I have no doubt that the next 12 -24 months will continue to be challenging – but that's the nature of retail.

I sincerely believe that the current strategic plan I have in place will enable us to continue to maximise any opportunity and successfully reposition the business and the Smiths City brand for sustained growth and momentum, from the absolute commitment to change under Craig's leadership of the Board and from all my executive team and all our people right across the business.

ROY CAMPBELL

CHIEF EXECUTIVE