

CHAIRMAN'S ADDRESS TO SHAREHOLDERS OF SMITHS CITY

26 AUGUST 2014

Before moving to the meeting formalities Rick Hellings and I will talk about the Company.

With much of the uncertainty of the last five years behind us we see Smiths City moving into an exciting and very positive period.

Retail has improved as well as consumer confidence. In terms of where we have stores and the people we have running them we are confident about our market position and the future. Also we have the refinancing of our customer financing operation behind us and can see clearly now more opportunity for us in the consumer credit business.

Our first quarter sales are up on last year in the Smiths City branded stores which is in line with our business plan to emphasis the higher margin furniture, bedding and flooring markets where we have strong brand recognition. The appliance stores are below last year but this is less of an issue with our focus squarely on Smiths City.

In Christchurch after the bulge of post-earthquake replacement spending in 2011 and 2012 the market last year returned to a more normal level. We are, however, now seeing a second phase with increased demand and, in our case, market share.

Our Colombo Street store has been undergoing Stage 2 of its rebuild and will reopen in two months to a bigger and better showroom than before the earthquake. We can't wait for the store relaunch and all our Christchurch staff are really looking forward to having the largest homewares store in Christchurch.

Over the last year as part of our business planning we have been searching for growth opportunities in the 50% of New Zealand that we don't operate in – Hamilton and Auckland. The Board and executive set down clear criteria for any expansion to guide us, drawing on our experience from the expansion five years ago in the Wellington region. We believe that growth by acquisition is the best way forward and would bring real benefits in scale, logistics and distribution as well as media spend.

An opportunity was closely evaluated during the year but could not meet the criteria on which we will not compromise – so we will continue with the research. What is clear is that there is no easy gap in the market in these regions with the number of retail outlets per household being higher than the South Island and particularly the Auckland market being much more diverse.

One other matter which we feel much more certain is that we expect to be through and settled with our earthquake claims this year. The final claim is the damage to the non-retail buildings we lost at Colombo Street being the head office and rented properties we had on the site. Both we and the insurance company continue to work towards a settlement which will be good for us both.

On the subject of independent information on Smiths City to the broking and investing community we have not made progress in recent years. This is partly because of changes in the regulations around financial markets and investment advice have made New Zealand brokers and financial institutions very cautious about their research publications – so they restrict their research to only the large cap stocks on the NZX with high liquidity. This leaves small cap stocks and companies with shares that trade infrequently, with no independent analysis or recommendations.

To fill the void of useful analysis available to the investment community regarding Smiths City, the Board has commissioned Edison Investment Research Limited to provide an independent report on the company. A copy of that report will be posted on the NZX website. Edison Investment Research Limited has also been contracted to provide ongoing analysis.

This report has been prepared using information that is publicly available. It should be noted that the opinions and conclusions in the Report are those of Edison Investment Research Limited and not Smiths City. The report is generic in its content and makes no recommendations to investors but provides significant analysis on the company which should be of interest to you. We intend to make further such reports available to shareholders in the future.

We have had some changes in Directors on the Board since the last Annual meeting. Sarah Ottrey from Wellington went off the Board earlier in the year – she brought, during her time as a Director, great experience in the area of sales, marketing and brand development. We intend to replace her

with another woman director bring the same set of skills and experience – the search process is under way. Luke Bunt from Auckland has also come onto the Board to fill the vacancy left by John Holdsworth and he will speak to the meeting later.

The senior management of the Company has been strengthened during the year and Rick will cover that in his address.

As I have mentioned in the past I and the Board would like to acknowledge all of our 700 staff – those in the front line as well as the delivery, installation and back office sides of the business, for their dedication and service to customers and the Company.

Ricks Address

OUTLOOK

To be covered off by Ricks address

MANAGING DIRECTOR'S ADDRESS TO SHAREHOLDERS OF SMITHS CITY

26 AUGUST 2014

Good morning everyone and thank you for giving me the opportunity to have a brief talk to you in regard to the company's overall performance and its plans for the next 12 months.

Looking back at 2014, if we ignore the timing impact of insurance monies associated with the recovery from the 2011 earthquakes, it really was a case of the good and the mildly disappointing. The good, of course, was a 44% increase in profit from ongoing operations. Sales being flat with the 2013 year was a little bit of a disappointment for us, although we do have to take into consideration – as Craig has said previously – that we did have a full year impact of a significant number of stores reopening in Christchurch and the market itself was, to put it mildly, challenging.

The improvement in profitability came from two main areas – capitalising on the benefits of the lower funding structure through Smithcorp Finance and a much improved performance from the Lower North Island region which incorporates Wellington.

The importance of Smithcorp to our customer offering and our profitability cannot be over emphasised and it is great that it can make strong profits even when retail is tough.

Wellington, of course, was an area we had highlighted last year needed improvement!

In addition we also experienced very encouraging results from two of our new businesses – the Furniture Concepts furniture stores and the Smiths City Commercial business which is based in Christchurch and is looking to take advantage of the Christchurch rebuild.

Over and above these factors the company made significant progress in the development of its on-line strategy and continued to develop the quality of our whiteware, furnishings and bedding product ranges which are the product areas we see as the long term back bone of the Smiths City chain of stores.

The lack of sales growth not only reflected the particular circumstances of Christchurch but also reflected falling prices and a hugely competitive consumer electronics market. This is not going to change in the very near future particularly as 75% of televisions in New Zealand are now under five years old!

As Craig said the company remains committed to expanding its operations to take advantage of our national media strategy, and the benefits of a strong on-line presence.

However, management also recognises the need to improve the returns from its current operations. This will mean we need to accentuate the positive and eliminate the negative. In short we need to direct our

promotional budget towards those product categories and businesses where we see the best returns on an ongoing basis and then concentrate on improving our in-store performance to take advantage of the opportunity!.

To this end in 2013 the Board restructured the management organisation from one reflecting brand position to one more reflective of the needs of our operations going forward. It did this by changing from having General Managers for each brand – to having simply two roles – General Manager Merchandise and General Manager Operations; both reporting to myself. The former concentrates on buying, logistics and all matters relating to procurement whilst the latter on all aspects of promotions and marketing, store performance including margin retention. These changes ensure we have two roles with clear lines of responsibility for the key areas that we see as priorities for success.

Both are here today and I would like to take this opportunity to introduce our General Manager Operations – Steve Salmon – and our General manager Merchandise – Martin Simcock. Both will be available to answer questions after the meeting.

In addition we have here today the other senior members of our executive team – Brian Lee; our CFO; Noel MacDonald; our General Manager of Smithcorp Finance. Also the ever patient Jill Cumberland; who operates as my assistant amongst completing a myriad of other tasks.

It would, however, be remiss of me not to acknowledge the input of all our staff. Personally I rate them the best of any retail team and their loyalty and commitment are certainly appreciated.

The priorities for the coming year are:

- § To continue to improve our product and service offering across all stores. This involves improving merchandising and staff training and also this year will include moving to better locations in both Rotorua and Palmerston North. Both new stores are vastly superior to the existing locations we have.
- § To complete the development of our on-line offering – which contributes to our ongoing growth – and to quickly expand the “fledgling” Furniture Concepts and Smiths City Commercial operations.
- § To improve overall gross profit margins through more targeted buying and by reducing our exposure to low margin product as well as improving all aspects of our back end logistics operations.
- § To ensure that all support office functions are aligned to provide support for these key initiatives.

BUT – leaving the best to last – we will, of course, be opening Stage 2 of the Colombo Street retail store.

You will have seen from the pictures on the screen that Stages 1 and 2 having been huge projects – not least, because, we have continued trading all the way through Stage 2. My thanks go to Martin Simcock, who has overseen the project; and to Rick Anderson and his team, who have worked – and continue to work – through it.

The extended store is due to be relaunched to the public in either late September or early October. This will be huge both for our sales and will benefit our balance sheet.

On a wider note, I cannot overstate the amount of work that has been required over the last three years handling insurance matters and would like to publicly acknowledge Brian's role in this area.

Put simply this store – when finished – will be one we can all be proud of.

First quarter trading conditions continue to be competitive. Quarter sales are in line with last year and profit is slightly ahead of last year. We expect trading to continue to be tough and we have to absorb increases in interest rates.

However, the first quarter result is positive and the above plans are truly exciting for the Group and I can assure you the management team is totally focussed on executing them well and delivering improved profitability for the Smiths City Group.

NOMINATION SPEECH – GARY RHOLOFF

26 AUGUST 2014

Good morning and thank you for the introduction Craig.

As Craig has outlined, I joined the board of Smiths City back in December 2010 and it is fair to say there hasn't been a dull moment since.

I have been a CEO/MD of retail and direct marketing businesses for almost 14 years and I would like to think Smiths City has benefited from that direct, hands-on experience over the course of the last four years.

It is great to see how Smiths City has transformed over that time in the face of some severe challenges from the market and of course as a result of the Christchurch earthquakes. I believe there is plenty of upside in Smiths City from here as we look to bed down the gains made over recent years and turn our minds and energy to the variety of growth opportunities on the horizon.

I am passionate about the success of Smiths City and would like to offer myself for re-election to the board. With your support, I look forward to working with Craig, my Board colleagues and Rick and his Team to deliver sustainable profitability to shareholders in the weeks, months and years to come.

SMITH'S CITY ANNUAL MEETING

26 AUGUST 2014

NOMINATION SPEECH – 3 MINUTES

THANK YOU MR CHAIRMAN FOR YOUR KIND INTRODUCTION AND GOOD MORNING EVERYONE.

MY NAME IS LUKE BUNT AND I AM DELIGHTED TO HAVE THIS OPPORTUNITY TO INTRODUCE MYSELF TO YOU AND TO STAND FOR ELECTION TO YOUR BOARD.

IN CONSIDERING A DIRECTORSHIP THERE IS MUCH TO REFLECT ON BUT THREE KEY FACTORS ARE IMPORTANT I THINK.

FIRSTLY, DO I RELATE TO WHAT THE COMPANY DOES, HAS THE COMPANY PROVEN ITSELF HISTORICALLY AND DO I HAVE CONFIDENCE IN ITS ABILITY TO SUCCEED GOING FORWARD? I HAVE CONSIDERABLE EXPERIENCE IN RETAIL AND IN FINANCIAL SERVICES, WHICH I'LL TOUCH ON IN A MOMENT, SO I DO UNDERSTAND WHAT THE BUSINESS DOES, THE BUSINESS MODEL IT EMPLOYS AND THE SECTOR IN WHICH IT OPERATES.

THE BOARD AND EXECUTIVE TEAM HAVE BROUGHT THE BUSINESS THROUGH AN EXTENDED PERIOD OF EXTRAORDINARY CHALLENGES. THEY HAVE DONE SO PROFITABLY, PROVING BOTH CAPABILITY AND RESILIENCE.

WHILST THE RETAIL SECTOR WILL CONTINUE TO TRANSFORM AND WILL ALWAYS REMAIN HIGHLY COMPETITIVE, SMITH'S CITY HAS CORE STRENGTHS IN BOTH ITS RETAIL POSITIONING AND ITS FINANCIAL SERVICES MODEL THAT WILL ENABLE IT TO COMPETE GOING FORWARD.

HOWEVER, RECOGNISING THE NEED FOR CHANGE AND INNOVATION TO CEMENT COMPETITIVE ADVANTAGE AND TO MEET THE DEMANDS OF A RETAIL MARKET EXPERIENCING WHAT IS ARGUABLY A REVOLUTION IN CHANNEL DEVELOPMENT AND CONSUMER BEHAVIOUR, WILL BE A VITAL FACTOR IN ACHIEVING SUCCESS.

SECONDLY, AM I ALIGNED TO THE COMPANY'S CULTURE AND VALUES?

CULTURE AND VALUES HAS MANY DIMENSIONS.

IN ESSENCE THOUGH I OBSERVE SMITH'S CITY TO BE A COMPANY THAT OPERATES TO A HIGH STANDARD OF CORPORATE CITIZENSHIP AND TO BE A COMPANY THAT HAS DEVELOPED HIGH LEVELS OF ENGAGEMENT AT THE ALL IMPORTANT CUSTOMER FACING END OF THE BUSINESS WHERE IT IS CLEAR, HAVING VISITED A NUMBER OF STORES, THAT THE CUSTOMER IS VALUED. THE COMPANY ALSO RECOGNISES THAT THE PARAMOUNT GOAL FOR ANY BUSINESS IS TO GENERATE APPROPRIATE RETURNS ON THE CAPITAL IT EMPLOYS AND TO CREATE VALUE FOR SHAREHOLDERS, AN ETHOS I SUPPORT STRONGLY.

AND THIRDLY, CAN I ADD VALUE?

I BRING WITH ME ALMOST 35 YEARS EXPERIENCE IN BUSINESS, 25 OF THOSE IN SENIOR EXECUTIVE POSITIONS AND MANY YEARS IN CORPORATE GOVERNANCE ROLES, THE LAST TWO YEARS AS A PROFESSIONAL DIRECTOR. I HOLD SEVERAL NON EXECUTIVE DIRECTORSHIPS IN BOTH PRIVATE AND PUBLIC LISTED COMPANIES. I ALSO SERVE ON THE ORDER OF ST JOHN NORTHERN REGION TRUST BOARD AND A NUMBER OF THE ORDERS REGIONAL AND NATIONAL COMMITTEES.

THE HIGHLIGHT OF MY EXECUTIVE CAREER WAS WITHOUT DOUBT THE TEN YEARS I SPENT AS CFO OF THE WAREHOUSE GROUP AND CHAIRMAN OF THE GROUPS FINANCIAL SERVICES BUSINESS, A JOINT VENTURE WITH WESTPAC BANK. WORKING WITH SIR STEPHEN TINDALL IN PARTICULAR, WAS A UNIQUE OPPORTUNITY. I HAD THE EXPERIENCE OF MANAGING THROUGH THE HIGH'S AND LOW'S OF THE ECONOMIC CYCLE AND THE EXPERIENCE OF WORKING THROUGH MANY OF THE MORE COMPLEX CHALLENGES THE CORPORATE WORLD CAN THROW AT YOU. I'M SURE THE LEARNINGS FROM THESE EXPERIENCES WILL BE OF VALUE TO SMITH'S CITY GOING FORWARD.

IF ELECTED, I LOOK FORWARD TO BEING PART OF THE SMITH'S CITY FAMILY, TO WORKING WITH THE BOARD AND THE EXECUTIVE TEAM, AND TO MAKING A CONTRIBUTION TO REALISING YOUR COMPANY'S FULL POTENTIAL. THANK YOU.