

RAL 2018 AGM - Shareholder Update

Dear fellow RAL shareholder,

It's been a significant year for RAL with the team focussed on multiple streams of work and some challenging issues. In advance of the AGM this Saturday, I wanted to provide you with an update to help inform discussion. In addition, for those not able to attend the AGM in person I hope it provides a useful overview of the past year and future ahead of us.

Shareholders will recall in late 2015 the Department of Conservation issued RAL a new licence to operate Whakapapa Ski Area for up to 60 years. This licence renewal gave the Board the required confidence to then announce our investment strategy - '\$100m in 10 years'.

A decade of declining visitation and a rapidly worsening financial position meant the RAL operation needed significant and immediate attention. To justify \$100m of investment, RAL needed to be able to evidence a healthy financial balance sheet. Key to this is being able to move from having an asset which delivers four months of revenue, to one that can deliver revenue year round. In particular, there was a strong desire to tap into the increasingly high visitation rates to the region during the summer months.

To make this happen we needed to inject new leadership and also look at infrastructure options that could transform the asset from having seasonal income, to year-round income.

By the end of 2016, a new CEO had been appointed and management were given a clear mandate from the Board; grow the business, use those funds to renew the asset base and delight our visitors with new facilities and an improved skiing and riding experience.

It's no secret that the asset base had deteriorated up to 2015, particularly at Whakapapa as all capital investment, other than necessary repairs and maintenance, was halted pending the renewal of the DOC licence. Since that requirement was delivered we have committed half of the \$100m investment target.

The company has delivered new infrastructure at an unprecedented rate in RAL history. To this end, I think it's worth reflecting on what has been achieved since the licence renewal:

- Out with the Old
 - 3 double chairlifts and two T-bars which were both old and had maintenance challenges have been removed
- In with the New
 - Lifts
 - Express Quad replaced the Rockgarden and Centennial chairs
 - Fixed Quad replaced the Waterfall T-Bar
 - Far West T-Bar completely rebuilt
 - Happy Valley
 - Two new glass-cabin elevators replaced the Happy Valley Access Chair
 - Two new covered and one new open carpet lift added
 - The Happy Valley Bistro was completely gutted and refitted with new kitchen equipment, carpet, furniture, bar and menu
 - NZ's first SnowFactory has extended the season by over a month with Whakapapa transforming from last to open, to first.

Upgrading facilities to attract new entrants to snow sports was a key strategic push for RAL, and the upgrades cement Happy Valley as the premier beginner ski area in NZ.

- Gondola proceeding
 - Whakapapa's flagship gondola project now officially underway, providing infrastructure that will make the mountain a year-round attraction.
- Restaurants
 - The Schuss Haus at Whakapapa has been brought back to life
- Snowmaking
 - Double the Snowmaking capacity for Whakapapa expanding trail capacity on the lower mountain in preparation for the Gondola
- Facilities
 - Night Skiing on the Rockgarden and Tenants Valley
 - High capacity shuttle service
 - Phase 1 of our digital infrastructure overhaul: new website and e-commerce capability
- Turoa
 - Licence renewed mid-2017.
 - We opened our rentals and ticketing office in Ohakune in 2017 to help guests pre-purchase tickets and arrange rentals before they arrive on the mountain.
 - Preparation and further work on the Indicative Development plan and an announcement of the next phase of development at Turoa is due early 2019, with work to commence summer 2019/2020.
- Taupo
 - We opened two retail outlets for shuttle tickets, lift passes and rentals to increase our presence and promote Taupo as a ski destination.
 - This gave us a wider range of accommodation options, activities for non-ski days and access to the visitor who is looking for a winter holiday as opposed to a dedicated 'ski holiday' (they will always want to be closer to the mountain)
 - Daily Shuttles from Taupo and Turangi to Whakapapa
 - JV partnership with Taupo and Ruapehu District Councils to promote to Australians – this is now an annual \$1 million campaign off our collective \$250k investment, led by Tourism New Zealand and partnered with Destination Rotorua and Auckland International Airport Limited.

This rapid deployment of new infrastructure has been accompanied by a corresponding overhaul of the business model. RAL has been squeezed by rapidly escalating fixed costs and rampant growth in some of our biggest variable costs. The licence renewal is a case in point with Department of Conservation licence fees escalating by 43%, and recently advising that the waste water charges at Whakapapa will more than triple by 2020 – rough maths says we will be paying \$2 per flush for every toilet on the mountain.

These pressures combined with declining visitation required that the board and management develop a new operating strategy that would allow us to meet those increased costs while still providing a great experience to customers. Our resultant strategy had three core themes:

- Invest in beginner skiing
 - Beginner skiers are the future market, they are also a feature of groups of mixed abilities – fail to provide for their needs and you lose the whole group
 - Major investment was needed to create a truly world-class teaching environment
 - Resolve the high accident rate by investing in dedicated lift and snowmaking facilities for sledding
- Create more value for Season Pass holders

- RAL has the longest season, most lifts and most hectares of skiable terrain
- Early bird season pass price represents best value in NZ
- Added discounts on retail, rentals, cafes, lessons and sledding
- Provide buddy passes to encourage friends and family
- Provide upgrade options for First Tracks, Night Skiing, Platinum Parking and a warranty option
- New reciprocal partnerships with overseas resorts: Zermatt, Panorama, Verbier
- Ultimate pass options in combo with Snowplanet, Cardrona and Skyline Rotorua Mountain Bike Park
- Stem the losses
 - Food and beverage operations need to break-even
 - Adopt pass pricing strategy to drive increased uptake of multi-day passes
 - Invest in Australian market to grow mid-week visitation
 - Partnerships with local council tourism organisations (Ruapehu and Taupo) to market the wider regional offer into the international markets
 - Target the 'new' New Zealander market and attract them to snow sports

In the past few months, there has been a lot of media interest in Mt Ruapehu and some fairly creative reporting, so we wanted you to hear directly from us. A number of journalists have really pushed the boundaries of ethical journalism with former RAL staff being solicited to provide 'anonymous complaints about the company', turning up unannounced trying to interview visitors and staff and putting words into their mouth, and repeatedly interviewing serial complainants with openly declared conflicts of interest creating a fairly one-sided narrative.

Tūroa Bus Accident

Firstly, I'd like to address the fatal bus accident at Tūroa on 28th July. Investigations are still underway on the cause of this tragic accident and our team is cooperating fully with the investigation team. Until we have the findings and understand next steps, we can't comment publicly any further than we have. Our thoughts and prayers continue to be with the family of Hannah Francis who tragically passed away in the accident. Since then, we have undertaken a complete review of our transport operations and we have implemented a few changes ourselves prior to the official accident report being released. We have been working with leading alpine transport operators since the accident to develop vehicle standards and guidelines and as a result, we have retired buses older than 10 years of age from our fleet. We have placed an order for 6 brand new 4WD buses which will arrive in the next couple of weeks.

Avalanche and the High Noon

On the 6th August, whilst our patrol team was conducting avalanche control above the High Noon, we had 4 start zones combine to create a large avalanche that took out Tower 15 of the High Noon lift, and damaged the haul rope and componentry on Tower 14 as well. Fortunately, no one was injured and all of our staff were quickly accounted for. Whilst it resulted in a major event on the mountain, we do this work to ensure that we have all hazards removed before we allow the public onto the snow. Our safety team estimate, that had we not done this, the avalanche would have released around 2pm that afternoon naturally – and the possible outcome of that is something we don't ever want contemplate.

We have worked tirelessly since the avalanche to work through all options to get the lift operational again before the end of the season. We've had the rope spliced, which primarily

allows us to run the lift for maintenance and de-icing purposes, and we're still awaiting the arrival of the tower and the critical componentry needed from Europe. Unfortunately, as previously stated, the lift will not be operational before the end of the season. The High Noon will be back in 2019!

The grooming and snow trails team has done a phenomenal job of widening terrain, and pushing snow into areas that haven't been able to be skied for a long time, and the feedback from the Turoa 'tribe' has remained extremely positive. Locals have even coined the hashtag #NoNoonNoProblem.

The picnic question

We recently trespassed a person who has over a decade of conflict and altercations with our staff and members of the Ruapehu community. He has targeted transport and road staff, café and customer relations staff and members of the management team – none of whom deserve this conduct. I strongly believe that our staff have a right to feel safe at work and this was the primary reason action had to be taken. He was not trespassed for eating a sandwich in our café as widely reported by certain media outlets. We have set aside space on both ski areas for those who wish to picnic and we simply ask that our guests be respectful of those dining at our cafes and stick to the picnic areas if you bring your own lunch. Don't forget – all season and life pass holders receive discounts at RAL cafes.

Bluebird Weekends

We all know that Ruapehu is at the hands of Mother Nature when it comes to the weather. A lot of our infrastructure decisions are now based around reducing our exposure to the weather. This season, we've had an incredible run of bluebird weekends combined with the best snow base in over 10 years, and an earlybird season pass price that was also the lowest in over a decade. The weekend visitor numbers, as a result have been quite remarkable.

We know this has led to some frustration around queuing times for ticketing and lifts. We are well down the track of developing and launching a new e-commerce and point of sale solution which will dramatically speed up our ticketing times for 2019, with a kiosk 'Click & Collect' approach for those who have purchased online. The First Tracks add-on has been incredibly popular this season for those early birds who like to catch the fresh cord. For 2019, I can exclusively announce now that all Season Passes will include Night Skiing, so it's a further opportunity to extend your day at Whakapapa on those busy Saturdays and soak up some après vibes.

Gondola's great but why the Waterfall?

When we announced the Gondola project back in 2016 the support was emphatic – 89% of voters on a Stuff poll said they were into it. Through the course of the design and consenting process it became clear that the sensible option was to take the opportunity to replace the aged Waterfall Express and connect the Gondola to the award-winning Knoll Ridge Café. The Waterfall is New Zealand's oldest detachable chairlift and it certainly hasn't had an easy life on ice-prone slopes of Mt Ruapehu. Just like classic cars, lifts of this vintage eventually need to be decommissioned as new safety and reliability standards take over so if you are nostalgic, make sure you get out there and ride it before closing day on 22 October.

We know you love skiing this terrain and we've intentionally invested in huge snowmaking and greater trail capacity on the lower mountain to ensure its skiable from mid-June to October in

typical snow years. We also need to remind you that the Gondola isn't the final step in the Whakapapa lift development strategy – we are working through detailed designs on the Knoll Ridge Express 6 seater chairlift with key stakeholders which will boost upper mountain skiing capacity and ensuring we have a good balance and spread of skiers around the mountain.

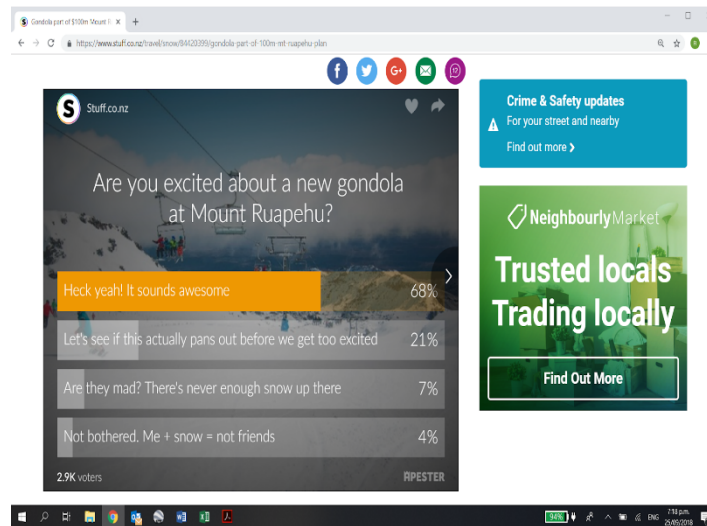


Figure 1: a 2016 online poll by Stuff of nearly 3000 voters showed overwhelming support for the Whakapapa Gondola project reaffirming the decision to invest

Summary

So as you can see, it's been a big year for the team, with some incredible highs, and lows and they continue to deliver on the strategy set out by the board.

We understand that with these changes, there will always be a small group of vocal detractors amongst our stakeholders who prefer things to remain 'as they were' or have vested interests they are looking to advance. If there is something on your mind we encourage you to share it with us directly so we can hear your good ideas and explain the reasoning and logic behind some of our decisions. Fighting it out via the media is not only time-consuming and unproductive, but it has the risk of reputational damage to our business, which will certainly not help us achieve our goals of becoming a more sustainable business and being able to reinvest in our ageing infrastructure. We also recognise that we won't also get everything right the first time, and we listen closely and act upon the feedback we receive via our social media channels, our Net Promoter Score surveys and direct contact with our customers and stakeholders.

It's also worth remembering that after a long period of slow decline, the Ruapehu Region is absolutely cranking with growing property prices, increasing visitor numbers, huge growth in visitor spending and increased employment – all metrics which are forecast to be boosted significantly by the investment in the Gondola and upcoming Turoa developments.

As a public benefit entity, it's timely to remind you all that we don't have a lot of options to raise capital – the best way for us to do this is to make a profit – as all of our profits must be reinvested back into providing better facilities on the mountain. Without profits, there is no money to invest!

We hope that as shareholders, you have confidence in our strategy, plans and ability to deliver, and you feel that you're in a position to defend the company you are a very special part of when required.

In summary, we recognise the great challenges that come with operating a seasonal business in such a unique environment, but we are excited by the prospects of what the future holds. Both ski areas have very robust plans, are led by experienced and very capable General Managers, and are supported by a leadership team and CEO who are working very hard to deliver a great visitor experience.

I would like to thank all our stakeholders and in particular local iwi (Ngati Rangī, Ngati Tuwharetoa, Ngati Uenuku and Ngati Hikaro) for their support. I would also like to thank RAL staff who have worked incredibly hard and who are so passionate about this incredible place we are so privileged to work in.

I'm looking forward to seeing those of you who can make the AGM and sharing both the financial and non-financial results of the previous year and sharing an update for the plans ahead of us.

Yours faithfully,

Murray Gribben
Chairman