



May 2019

Dear Shareholder,

As we head into our AGM on Saturday, I wanted to reflect back on the 2018 season and share with you some of the plans we have for 2019, to help inform discussion. In addition, for those who are not shareholders and do not attend the AGM I hope it provides a useful overview of the past year and future ahead of us.

We will remember and reflect on the 2018 winter for many years to come. It was the first time in a few years that things came together and 'gelled' through the early season and July school holidays. We had excellent snowfall, our snowmaking and grooming team did a great job getting us open and, apart from a delayed opening of the Valley T-Bar after a mechanical upgrade, the lifts and systems were functioning nicely.

The team was working well, the visitors were having terrific days on the snow and the year-on-year comparisons were strongly positive. Then, in the space of two weeks, two major incidents rocked our team and the community. A fatal bus accident claimed the life of Hannah Francis and injured many others including some of her family. Words cannot express the magnitude of this tragedy and the impact on Hannah's family. Our thoughts and prayers remain with them.

A couple of weeks after the accident we experienced one of the biggest avalanches ever recorded at Tūroa. It came right over the return station of the High Noon Express causing extensive damage to towers, the haul rope, chairs and the station itself. A snow grooming machine was destroyed and the biggest capacity lift on the mountain was disabled for the rest of the season.

In the period after the bus accident our company took significant steps to reduce the risk of such a tragedy ever occurring again. The original fleet of buses was replaced with brand new 4x4 vehicles, GPS units were fitted, systems, processes and training manuals were scrutinised, and experts were brought in to study the vehicle and help us learn more about the situation. The company had progressively been outsourcing transport operations to contractors over the previous three years, with only the Tūroa services remaining partially in-house. It made sense to accelerate this outsourcing process and a decision was made to bring a specialist contractor on board to take over all transport operations commencing in 2019. RAL has taken a lead role coordinating an industry-wide review and the development of a new Alpine Vehicle Specification and Code of Practice.

Our location and environment continue to highlight why our commitment to maintain a safe workplace not only for our employees but also for our customers, contractors and all stakeholders using the ski area as a place of work or recreation is paramount.

Prior to the Tūroa avalanche we were on track to exceed the record 2009 winter. Ultimately, Tūroa skier days and revenues still grew versus 2017, but the growth curve was constrained with the High Noon Express out of action. The team made the most of the exceptional weather and snow conditions, and the grooming was widely reported as outstanding with new trails off the Giant (a real crowd pleaser). It is pleasing to report that in March 2019 the repair work to the High Noon was completed and the lift is ready to operate again for winter 2019.

Whakapapa continues to grow at an exceptional rate – the 2018 winter season was the biggest in the 65-year history of the field, with 143 operating days and just seven closed days. The advancements in the snowmaking and lift technology have made Whakapapa operations as reliable as any of our counterparts in the South Island. The longer season, addition of night skiing and premium beginner facilities have underpinned this growth. Growth in the ski industry was experienced across the whole country. A record number of skiers and snowboarders hit New Zealand slopes in 2018, clocking up 1.9 million days. That was a 16% increase on 2017 – the previously highest year. The phenomenal snow conditions paired with additional marketing, sales and investment throughout the industry contributed to the growth. The cost of operating two ski areas in a UNESCO World Heritage Area, atop the North Island’s highest peak has risen at more than four times the rate of inflation, so it is clear that an austerity strategy has no chance of beating the rising costs to profitability - the only way forward is to grow the revenue pie and do so in a way that continues to make Mt Ruapehu attractive to a wider audience, so we can reliably retain a portion of cashflow to continue investing in our great customer experience.

Revenue growth as a result of investment and enhancing the product offering has been pleasing. Total revenue was \$24.6m in 2016/17, \$28.9m in 2017/18 and \$36.2m for the 7 months ending November 2018, an increase of 26%. It is important to acknowledge the difficulty in analysing our 2018 financial results due to the short financial period. There is further explanation of this in our Annual Report which has been loaded onto our website. [> Click here <](#)

One goal of our pricing strategy has been to drive greater pre-committed revenue to help cover the very high fixed costs we face. Season pass revenue has increased 10% in the past two years which has improved the timing of cashflows and reduced peak debt and financing costs. We have continued our relentless programme of major lift upgrades and renewals. The 2017/18 summer brought a focus on the T-Bars at Whakapapa with the Far West T-Bar almost entirely replaced with brand new equipment; a \$1.4m project with Doppelmayr New Zealand; and the Valley and Knoll T-Bars had a substantial mechanical upgrade with new sheave assemblies and realignments.

Looking ahead, we anticipate the opening of the Sky Waka gondola at Whakapapa in time for the 2019 winter and can report solid progress by the team on site.

The Knoll Ridge Chalet is currently undergoing a major refit in preparation for the gondola which will add nearly 50% more seating capacity.

We would like to take the time to acknowledge those who have helped us to fund the Sky Waka gondola including:

- Tūwharetoa Gondola Partnership;
- Māori Investments Ltd;
- Bay of Plenty Community Trust;
- Mr Mark Dunajtschik;
- The Provincial Growth Fund (MBIE);
- Ruapehu District Council; and
- Taupō District Council.

Pre-sales for 2019 have been strong with record season-pass sales assisting with cashflow through the first quarter of the 2019 financial year. The renewal of our Tūroa licence in September 2017 is confirmation of our continued right to operate on Tūroa is a major event for us and our skiers. We are also preparing to lodge planning applications for a major redevelopment of the Tūroa Ski Area in the second quarter of 2019. The updated Indicative Development Plan for Tūroa is live

on www.mtruapehu.com and we encourage you to have a look and give us your feedback on the next phase of development.

What's in store in 2019?

- **Sky Waka**

Naturally we're very excited about the launch of the Sky Waka gondola. Not only will this be a major step change in the on-mountain experience for our guests but will also provide significant economic benefit to the wider district as we attract new markets to the maunga. Work is continuing on the Sky Waka as I send this update, and we are on track for an opening in June, in time for upper mountain skiing. As you will understand, there is still some risk attached to the project as we are still relying on the settled weather to continue for us to complete the job.

- **E-Commerce Platform and Click & Collect**

The IT and Development team has spent the summer developing a new e-commerce platform and Point of Sale for implementation this winter. This will open our entire product range for online bookings, which will dramatically assist in reducing queue time on mountain. Part of this project also includes 'Click & Collect Terminals', which will be in key locations off mountain and also on mountain in the arrival plazas. In short, this means that customers who have purchased online will simply need to scan their confirmation and a snow card will be printed with all their products loaded so they can go straight to the snow. The scope and scale of this exercise has been immense and we're very excited to launch this to our customers.

- **Giant Café refurbishment and coffee**

We listened to your feedback last season about the Giant Café and we are happy to announce that barista coffee will be back in 2019! The Giant has been refurbished over summer and we'll be launching a new food offer alongside the fabulous barista coffee this winter.

- **Food & Beverage**

You'll notice big changes at the Knoll Ridge Chalet this season. It has also been through a refurbishment and we have increased seating capacity by nearly 50%. We'll have a range of food offers available from quick and tasty bites to sit-down buffet dining. A new Executive Chef with a huge background in catering for large scale events has been appointed and he will be working alongside our management and commercial teams to deliver a range of menus across the outlets on mountain to suit all tastes and budgets.

Finally, I would like to acknowledge the mammoth efforts of our staff over the 2018 season and financial period. They dealt with some life changing events and one of the busiest seasons on record, all while continuing to adapt to the operational and commercial changes still occurring within the business. I would also like to thank our stakeholders, specifically our guests, iwi, investors and shareholders that continue to support our business. We have a few busy weeks ahead and we look forward to welcoming you on the mountain in winter 2019.

Regards

Murray Gribben

Chair

Ruapehu Alpine Lifts Limited