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Speech Notes

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Tourism Holdings Limited

Annual Shareholders' Meeting
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SLIDE 1

Hello ladies and gentlemen, and thank you Keith for that introduction. I am delighted to be here today at my first Tourism Holdings Annual Meeting.

As Keith mentioned, I have been involved in tourism for most of the years since the early 1980s. Since I rejoined the industry just four months ago I have been asked many times about **my impressions** – what has changed, what has stayed the same and where is the industry headed?

I'd say that **four issues** really stand out to me and I will talk about each of them during this address:

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1. Growth
2. Product Diversity
3. Technology, and
4. The impact on the industry of the importation of second hand vehicles

SLIDE 3

Looking firstly at the issue of **growth** ... back in 1983 we thought tourism was a big industry that needed noticing. 20-odd years later, our international visitor numbers are more than four times the 1983 level, at well over two million and reaching towards three million. Now, tourism is rightfully New Zealand's leading single export industry and largest source of employment, and is worthy of careful development and protection going forward. It is a key requirement that the industry continues to grow in a sustainable direction and its value to our economy is clearly understood.

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As you can see, there has been almost constant growth, but it has been lumpy. This is the reality of tourism – it is subject to macro impacts, which can be positive like *Lord of the Rings* and the currency when it is weak, and negative like SARS, the currency when it is strong, and the emerging threats to global security.

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My second issue – **product diversity** – has come about as regions and tourism companies have continued to expand their tourism product lines. This is an excellent development.

This product growth and diversity is well suited to THL's product mix as our transportation businesses are used to transport hundreds of visitors every day.

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The third issue on my list is **technology**. The technology-driven change in distribution – or more broadly, the way we interact with customers – is probably the single biggest impact on tourism over recent years. This is a subject I will return to later – particularly in regard to this company securing its future via thoughtful and appropriate use of IT.

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Last of the four on my list was the **importation of second hand vehicles**. The variable quality of these vehicles, imported in very large numbers over the past decade – along with their negative impact on our environmental positioning, product safety and product quality – is cause for concern.

PAUSE

I'll come back to some of these points in due course...

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but before that I would like to take you on a **quick spin around our company**, and outline to you some of the great product innovations and changes we have been making to our line-up over the winter months.

Starting in our **Attractions business**, where the team have been busy with a range of new products and marketing initiatives...

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In the **Bay of Islands**, **Fullers** has had a significant focus on change in the past 12 months, and a lot of hard work is now coming to fruition with new products, product enhancements and significant investment in customer relationships.

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There was strong feedback from local agents that Fullers needed to assist customers with a local transport option. The solution is a smart, convenient **shuttle van service** operating throughout the year.

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Fullers has exclusive commercial landing rights to the outstanding **Urupukapuka Island**. As part of our extended range of products this year we are dedicating a vessel to transport passengers to this iconic island to enjoy the pleasures of island life in the bay. Whether it be for an hour or a day, there are plenty of activities to enjoy and multiple options for a quick return voyage.

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The original Cream Trip has been revamped to include new options, and at an even more compelling price. Feedback has been very positive on the new and **enhanced Cream Trip product**.

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Another totally new product offer is the **Sunset Cruise**. This product will enable customers to enjoy a leisurely cruise on the Bay before dinner throughout the summer season. It is very competitively priced, and targeted at the Free Independent Traveller (or FIT) market – clients looking at a different evening and dining experience.

Now on to **Milford Sound, and the Red Boats...**

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The launch of the **Encounter Cruise** is the most significant change in years to our Milford line-up, and has had a positive reception within the local market. The *Lady Bowen* was refurbished last year and is a wonderful way to enjoy this unique New Zealand product.

The Encounter Cruise has been developed by our team in Milford to create a true sense of what makes Milford one of the amazing natural wonders of the world.

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We also recently purchased **Milford Deep** an ideal product extension to our cruising product range.

This product also targets the FIT market, and enables a significant product differentiation from other cruise operators.

PAUSE

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At **Kelly Tarlton's....** Following the flood in June this year we have had to rebuild nearly a third of the attraction. The tunnel, foyer tank display area, education space, interactive room, retail area and office space were all affected severely and have had major restoration work.

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The result is a much improved look and feel in some areas, whilst other areas such as the foyer tanks, retail area and new Aqua Cinema provide an enhanced experience for all customers.

Kelly Tarlton's has had a renewed focus on attracting customers through using the core attractions as a base product, with exhibitions to enhance and renew interest.

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Following the very successful Shark Attack exhibition in April and May, Freaky Fish has provided an opportunity to relaunch Kelly Tarlton's after the June flood, and provide an insight to the great mysteries of the deep.

PAUSE

We now come to the **Coaching division**....

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Developments in **Airbus** include four new vehicles introduced into the fleet, and the NavMan GPS monitoring system rolled out to hostels and hotels with SMS capabilities.

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In **Great Sights**, the Hanmer Springs product offering has been expanded to include a new spa and pamper option, targeting the up-market traveller.

The Christchurch City Highlights tour has been expanded to include the option of experiencing the Hagglund Ride at the International Antarctic Centre.

Also offered is free transport drop-offs for passengers who have purchased certain Great Sights tours. This transfer is provided by THL's Airbus service.

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In **Johnston's Coachlines**, seven new coaches are currently being introduced – six 5 star and one 4 star plus – to support some new series touring customers including Globus and Grand Circle.

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In **Kiwi Experience**, the Student Travel Association Global Agreement has been confirmed and signed, and our Milford product has been rebranded and relaunched as the Milford Explorer.

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In **Fiji**, a Great Sights Navala Tour has been launched, and the Feejee Experience Hotel Hula Loop was launched on 1 April, giving 'flash packers' the option of choosing accommodation in hotel-style rooms rather than dorm beds.

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InteractNZ is a small luxury coach brand developed during 2006. The concept is to target travellers who like the feeling of independence, but also enjoy the company of others in a small and more personal setting. InteractNZ coaches have 21 seats – individual reclining leather seats – a built-in barbecue, an awning, DVD facility and so on. This business has already contracted a major series tour customer.

PAUSE

Turning now to the **Rentals division**...

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Maui launched a **new website** on 1 November that complements an online booking facility launched in March 2006. More than \$7.7 million has been taken via this channel to date, across all of our brands in both New Zealand and Australia.

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The **new Britz website** is under way and will be launched 1 December 2006. Both this and the Maui site have been designed to increase the 'stickability' of customers and differentiate Maui and Britz from the multitude of other campervan sites in the online space.

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The **Rentals** business has also undertaken a number of **branch makeovers**. As a result of feedback from customer research in 2005, we have refreshed the look and facilities at all **11 Australian branches** to enhance the customer's experience and better meet their needs.

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In **New Zealand**, the **makeover of the Auckland branch**, completed in October 2005; the installation of a new sleek **Airport counter in Queenstown**, opened in June this year; and the **Christchurch branch makeover**, to be completed this month.

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Rentals New Zealand has also undergone a **service delivery review**, with the outcome being improved service delivery and operational efficiencies. 100,000-plus customers will visit the four branches this year.

We have also made a number of **Product Extensions in the Britz business**, including...

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The **Britz Camper**, which will be introduced in Australia in March 2007 and launched to the trade at ATE [the Australian Tourism Exchange] in May. In New Zealand, we will launch the Camper to the trade at TRENZ, the major tourism industry convention, in May and it will be introduced to the market on 1 October 2007.

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Also to be released in Australia – in January 2007 – is the **Britz Voyager** – a 4-berth campervan without toilet and shower. This vehicle is based on the Toyota Hiace Super Long Wheel Base.

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Back in New Zealand, the **Adventurer** four-wheel drive Landcruiser-based Campervan is to be launched at TRENZ in May, and introduced to market on 1 October 2007.

PAUSE

CI Munro has had a big year of development, with a **number of introductions**.....

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The **Road Villa caravan** – 27 foot 3 inches long, now our largest caravan, with separate toilet and shower, larger kitchen and living areas. This is designed to compete with Jayco, which tends to sell larger caravans. We had orders in hand for six Road Villas before they were even launched.

Also introduced.....**electric brakes on caravans** – CI Munro is the first volume manufacturer to do so in New Zealand.

FADE OUT SLIDE 33(*)

And **fibreglass composite walls** are now on trial with Maui Australia and soon Maui New Zealand. These provide savings in weight and costs over current wall structures used in Maui, with big advantages from the ability to glue the structure together in production.

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The **Alko caravan chassis** has been introduced and is about to go on test prior to launch in New Zealand next March. We will be the first manufacturer to introduce these in Australasia, providing weight and strength benefits which we will maximise via a marketing campaign.

All our design work is now carried out on a **computer aided design system**, rather than the historical method of physically building a one-off prototype. This change linked to investments in modern manufacturing will provide for improved engineering quality and repeatability.

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PAUSE

So that... as I indicated at the start... has been a quick tour of the company. I hope it has given you a sense of what is a very wide range of initiatives and innovations aimed at enhancing the performance of the company by upgrading our products, facilities and processes.

Now I would like to move on and talk about some of the **immediate challenges** in front of us.

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At the forefront I put the trends in **information technology** – particularly the ongoing and rapid change in distribution and the impact that the Web is having on consumers purchasing travel.

We are seeing the marketplace change before our eyes. THL needs to be at the forefront in offering consumer choice in purchase points whilst continuing to support and focus on our traditional Agent and Wholesale networks.

It is no longer enough just to operate an information website with an email link – dynamic pricing and availability is a growing requirement, as is solid understanding of social interaction sites such as TripAdvisor / IgoUgo / Myspace / You Tube etc.

THL currently is not well positioned for the change occurring in new media distribution channels. We have started working hard to define our direction. There is a need to lift our investment in the Web environment, and connectability to our reservation and IT system is a must. Speed to market will be a key driver of business growth, as is speed of change to compete with ongoing innovation. It is critical that THL moves rapidly to an IT platform that supports these two key market drivers.

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The second major challenge relates to **industry issues**. We need to take a strengthened advocacy role in the industry, to help the industry to think outside the traditional square. I would like to think we could take a role in encouraging a focus on pricing and yields that maintained a required return on capital, which lead in turn to quality reinvestment and an ongoing lift in product quality.

We offer very good value on the global tourism stage but often some sectors of the industry price well below the ability to replace assets at the end of their life.

Competition is healthy of course, but a question to ask is, do we spend too much energy competing domestically when our real challenge is competing destinations.

To give an example, code sharing in the winter on some coaching product and boating operations would be a good first step in underpinning an increase in profitability – for THL and the industry generally. We would be very interested in positive discussions on how the off season could be better managed by the industry.

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The third major challenge relates to the **role of government** in supporting a business environment in which tourism can trade profitably and contribute to society.

We certainly welcome the government's policy direction to address issues of sustainability and environmental responsibility. Quality and sustainability are key drivers of a secure tourism future, and tourism is the country's largest export earner, producing 9 percent of the country's GDP.

Nevertheless, as a nation we continue to undermine our main export industry every day by the continued importation and use of old, end-of-life vehicles – often driven by small undercapitalized companies or individuals with scant interest in sustainability, or even legal compliance. We ask the Government to think hard on the medium-term risk of this policy and limit the age of imported vehicles – or at the very least, increase enforcement so that our visitors are given a quality experience.

As a large transport company we would like to start exploring the use of hybrid vehicles, but competition from aged imported vehicles prevents that logical enhancement of our product range. As the New Zealand government starts to form a more cohesive strategy around climate change, one must ask where is the logic in importing old, end-of-life polluters for our pristine tourism industry.

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Some urgency is also required in government policy that would enable the tourism industry **greater access to seasonal service workers**. In a recent speech in Wellington, the Immigration Minister spoke about the goal of ensuring that New Zealand has the skills, talent and labour it needs for economic transformation. Again, we would support that direction. A flexible supply of labour and skills is a key requirement if visitor arrivals are to continue to grow at the same level as in recent years. We are a long way short at the moment – some reports indicate that by 2011 we will be tens of thousands of workers short in our industry.

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PAUSE

And so to the final part of my talk, in which I'll cover some **recent strategic and structural changes to the company**.

In early October I outlined a strategic direction to the Board, and over the past few weeks I have been making some changes to put the foundation in place for THL to move forward.

As foreshadowed in the 2006 results announcement and the annual report, there has been a comprehensive review of our operations, structure and strategies to ensure we are well positioned to take advantages of future opportunities.

Currently, THL has more than 30 brands, and as a result we struggle to achieve a good understanding by the market and customers.

To address this, the **company is splitting into four distinct, branded operating companies**... each fully focused on its market segment and customer groupings. These four operations will be **supported by a centralized Project and IT resource** charged to create back office efficiencies and future-focused technology solutions. These will reduce our time to market, help us to take advantage of emerging distribution and marketing trends, and provide quicker integration when we make acquisitions.

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The Four Companies will be Rentals, CI Munro, KX Group and the Tourism Leisure Group.

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Rentals Australia and New Zealand will function as one company. Its major focus over the next 12 months will be to address the demand from consumers for an information technology platform that is more user-friendly and directly accessible. In general terms, our platform will become more dynamic in nature, with growth planned in both business-to-business and business-to-consumer connectivity.

We will also look at ongoing expansion in the range of products offered, particularly for the Britz brand. Product quality and delivery advancements will remain at the forefront, as well as ongoing information gathering and research on our customers.

Our Britz, Maui and Backpacker brands continue to grow well in both the domestic and international markets, supported by an established distribution channel. Ongoing investments in these brands, with more product development linked to solid investment in our technology platform, will enable us over time to consider expanding one or more of these brands to other large motorhome or rental vehicle markets.

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CI Munro will also receive further investment to modernise manufacturing systems and processes, to lift our scale and diversify our product range.

Greater use of modern manufacturing techniques will enable CI Munro to re-establish its presence in New Zealand's growing caravan market whilst continuing the ongoing supply of motorhomes to both THL Rentals and other companies. It is pleasing to note that our recently revamped caravan offering is enjoying renewed demand, and that the caravan industry is once again a growing market segment in both New Zealand and Australia.

PAUSE

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The **KX Group**, Kiwi Experience is one of our more successful and dynamic brands, linking exceptionally well to the youth and backpacker market. Our plan going forward is to further broaden this brand into other youth/backpacker product zones.

A comprehensive study will start shortly on positioning the brand more widely in the tourist transport and rentals sector. This is a market that is very contemporary and web savvy in particular, and we run the risk of missing this market with some of our traditional brands. We feel the Kiwi Experience brand provides more revenue generating opportunities in some of our vehicles, as a preference to disposal.

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Now to the **Tourism Leisure Group...**

With brands too numerous to repeat here, our companies operating in the attractions and coaching sector will merge into one entity. Our working title for this group is the "Tourism Leisure Group". This grouping, over time, will be positioned under one hero brand, one leadership team, one profit and loss account and one technology platform.

The new management team will start developing a new customer-focused strategy with a strong marketing and local regional focus, allowing us to provide a tourism supply chain that captures significant competitive advantage.

The change will also provide greater brand strength – allowing deployment of a hero brand that will provide national linkage whilst indicating regional diversity.

This is a significant change in the way we have operated as a company. Some time next year, after the appropriate process THL's Coaching and Attractions assets will emerge under this one single unifying brand.

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So just to **summarise the structural changes... the four operating divisions will be THL Rentals, CI Munro, KX Group and the Tourism Leisure Group.**

We are making these **changes for the following reasons:**

- To simplify our brand structure and increase the overall market power of our branding
- To increase our recognition and focus on distinct customer groups and segments
- To improve our leveraging at the group level of the customer opportunity – or, to put it another way, to enhance the overall product and service package we offer to customers
- To unify our information technology platform and thus improve our distribution
- To provide greater back-end efficiencies
- And over time, to position the company to grow.

PAUSE

I would now like to introduce the **team that will lead this growth.**

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Ian Lewington - Chief Financial Officer
Chris Rusden - Chief Operating Officer Rentals Division
Grant Webster - Chief Operating Officer Tourism Leisure Group
Paul Hebbard - General Manager, CI Munro
Quinton Hall - Chief Information Officer

PAUSE

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In conclusion... tourism has a very exciting future in both New Zealand and Australia. To move the company forward, some extra investment is required to catch up in areas where investment has been lacking in recent years.

Our company's assets are, in most cases, in fine shape, but the time has come to make some increased investment to position us for the future. We are some way away from a detailed number for this investment, but believe it to be in the vicinity of 6-7 million dollars over the next 30 months. Most of this spend will be deployed in modernizing CI Munro, rebranding, refreshing brands and extra investment in IT to enable the company to have a more assured future in the online environment.

Failure to make this investment would put the company at risk of missing the significant changes now taking place in tourism marketing and distribution. We intend to note this spend as one-off, non-recurring items over the next two financial years. As part of the change programme, we will also shift our corporate office in Shortland Street to share facilities with one of our operating divisions.

I will be happy to deal with any questions you might have at the allotted time later in the meeting. Thank you.



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