Deputy Chairman's address to media
Air New Zealand Interim Results
29 February 2008

ROGER FRANCE

Good morning and welcome.

John Palmer regrets that he is unable to attend today's presentation because of a family bereavement.

Today, we are pleased to announce a solid first half performance with high loadings despite increased competition and record jet fuel prices. In the six months to 31 December 2007, we increased our normalised earnings before taxation and unusual items by 62% percent, to $159 million, on the comparable period last year. Operating revenues are up 9.6 percent and group wide load factors increased by 5.3 percentage points to 79.4 percent.

The Board has declared a fully imputed interim dividend of 5.0 cents per share, up 67% on last year's interim dividend. In respect of ordinary dividends or other distributions the Board reviews the financial position, trading environment and imputation credit availability each reporting period. It will again do so at the financial year end.

In our long-haul operations:

- Our international airline boasts a modern fleet with unique interiors and award winning service.
- Our business class service has recently been rated the top of the Star Alliance for the first time.
- Load factors in the premium cabins are further evidence that we are performing very well.
- We place a high premium on innovation and are in the process of designing more unique features for our next generation of product which will be introduced in three years time.
- We have continued to make some very significant changes to our long-haul network to ensure our aircraft are flying on the routes that offer the greatest growth and profit potential for Air New Zealand.
- Our newest destination, Vancouver, is performing better than expected following the launch in November 2007.
- We have continued to rationalise our poorer performing routes, having recently announced the withdrawal of our services between Nadi and Los Angeles. We have replaced this with a revised code-share relationship with Air Pacific, thereby improving profitability and better meeting our customers' needs.
- We have also announced our intention to begin flying from Auckland to Beijing in July, ahead of the Olympic Games.

As a result of these changes the international airline is growing at a faster rate than any stage in our history.

In our short-haul operations:

- We have worked hard to establish a lean cost base and highly competitive fare structure.
- The significant investment that has been made in new turbo-prop aircraft and the scheduled introduction of additional Boeing 737s in the domestic jet operation have enhanced the domestic network and frequency of service we offer our customers.
- Consideration is currently being given to introducing jet services in some provincial centres, as we continue to expand our offering.
- Grabaseat continues to offer an innovative platform that delivers discounted flights to New Zealanders.

Aviation remains a highly competitive industry. The entry of new competition into the New Zealand domestic market has meant that capacity has run ahead of growth in demand on the main trunk routes. While our business is well positioned to meet this challenge, it is still vitally important to make ensure that Air New Zealand continues with its programme of product innovations to make certain that the airline remains at the forefront of the domestic market. We have more changes planned for the next six months that will improve our competitive position and our customer experiences.

As the operating environment becomes increasingly competitive it will be more important than ever for Air New Zealand to successfully differentiate ourselves from our competition. Our investment in new aircraft, systems and passenger services has created a platform that enables us to develop innovative revenue

opportunities. We now aim to leverage this platform to take advantage of these opportunities in both the domestic and international markets to improve productivity, customer satisfaction and increase returns to shareholders.

Fuel prices continue to provide our business with a significant challenge. Fuel is our largest operational expense and although we have a hedging programme in place designed to protect the business from short-term market volatility, continued high fuel costs remain a concern.

To stay ahead in the aviation industry an airline cannot sit still. Our management team led by Rob Fyfe has a proven track record of delivering results by constantly and quickly adapting our business strategy in rapidly changing markets. The Air New Zealand Board has every confidence that the management team will continue to make the bold decisions necessary to maximise the long-term profitability of the business.

I'll now hand over to our CEO Rob Fyfe.

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Thanks Roger.

The first half of the 2008 financial year represents a period of solid progress for Air New Zealand. We have been able to adapt Air New Zealand to survive and thrive against a variety of new competitive threats and challenging market conditions.

In 2005, Air Transport World (ATW), a leading industry magazine, recognised Air New Zealand with the Phoenix Award. The Phoenix Award celebrates "airlines that have achieved a commercial rebirth through a life-changing transformation".

Since then we have continued to build on this success. The outstanding contribution of all Air New Zealanders has seen the airline judged as offering the world's best passenger service in this year's ATW airline industry awards. The ATW Awards are coveted by airlines with the Passenger Service Award one of the most valued, recognising an airline that has been "innovative and consistently superior in providing outstanding quality passenger service at a fair price".

We have come a long way since we started our business transformation in 2003. In the process, we have asked a lot of our people who have been instrumental in delivering the required results quickly and efficiently. They have kept open minds and adapted to take a more flexible approach to their work.

This is true across all aspects of our business, from our executive team to frontline customer facing employees. We have introduced far more flexible rostering and scheduling across our business, enabling us to better align our resources to reflect demand patterns. We have given our people greater latitude to use their initiative in meeting our customers' needs and we have invested heavily in training and communication programmes to help all our people to better understand their role in the context of Air New Zealand's broader goals and objectives. Almost no corner of the business has been left untouched as we have reassessed when we work, how we work and who we work with.

I am very proud of what Air New Zealanders have achieved and am confident in the ability of our organisation and our people to continue to compete against a broad range of rivals – from regional budget airlines to global mega carriers.

We have continued to see strong growth in revenue and this has translated into an improved bottom line performance. Cash generated from operating activities, prior to the impact of the rollover of short dated foreign exchange contracts, was $320m, an increase of $93m over the previous corresponding period.

Closing net cash was $1,222 million, which is $165 million higher than the position at 30 June 2007.

We have now largely completed the current investment cycle and this is reflected in significantly lower capital expenditure demands. Capital expenditure for the full 2008 financial year is expected to

be approximately $300 million, which includes the cost of recently introduced Q300 aircraft and the start of the proposed upgrade of the in-flight entertainment system on our A320 and B767-300 fleets. The next big investment cycle commences in 2010, when progress payments on the new B787 and B777-300ER aircraft increase ahead of their scheduled delivery dates in the 2011 financial year.

I'll now take you through this waterfall chart that shows the key drivers that affected our business performance relative to the previous corresponding period. The numbers on this slide have been extracted from the full interim financial statements.

The stand out feature of this period's performance has been the $186 million revenue growth from increased traffic. This additional traffic, combined with increases in local currency yields of $71 million results in an increase in passenger revenue of $257 million.

Other revenue increased by $38 million on higher cargo volumes and an increase in third party engineering contracts.

In combination this resulted in operating revenue growth of 13.9 percent, prior to the impact of foreign exchange movements.

Increases in labour cost added $47 million to the cost base year on year. Despite a tight labour market, wage and salary increases have been contained in-line with inflation. Increased flying and third party contract engineering work have been the main drivers behind the rise in labour costs.

The unhedged price of fuel increased by 13% from US$82 per barrel to US$93 per barrel resulting in an $87 million cost increase. Volume increases contributed an additional $32 million in cost. However, the resultant total was offset by $38 million of hedging benefits giving rise to a net cost increase of $81 million, which is the amount you see on the waterfall chart before you.

At current prices, fuel costs in the second half of the 2008 financial year will be substantially higher as the benefits of the Company's fuel hedging programme are reduced.

The increase in maintenance costs relates to additional flying and an increase in third party contract work, while the increase in aircraft operations and passenger services costs reflect our expanded Asia schedules including Shanghai and London via Hong Kong as well as the new Vancouver service which commenced operation in November 2007.

Sales and marketing costs increased in line with revenue growth.

Movements in foreign exchange rates and currency hedges had a net negative impact of $14 million.

The combination of these factors gets you to our current period normalised earnings before taxation and unusual items of $159 million.
At the group level, capacity grew at 4.4% period on period while load factors were up 5.3 percentage points resulting in a 6.4% increase in the number of passengers carried.

As Roger France detailed earlier we have continued to expand our international network. We have increased long haul capacity by 9.1 percent on the same period last year with load factors up 5.7 percentage points to 80.8 percent. Yields in off shore markets improved but this was largely offset by the strengthening New Zealand dollar.

The Tasman and Pacific Island markets continue to perform at an acceptable level as a result of sustained demand translating to improved loads on lower capacity. We are currently in the process of revamping the travel experience for those travelling across the Tasman with reconfigured A320 and Boeing 767 aircraft and investment in individual on-demand in-flight entertainment.

While domestic passenger revenues increased by 4.5 percent for the half year, Air New Zealand added 6.2 percent more capacity and as a consequence load factors dropped slightly to 73.7 percent and local currency yields were down 0.5 percent on the comparable period last year.

While the results from the first half are pleasing and place the Company on a sound financial footing, current external conditions continue to place fresh challenges in front of the business. A continuation of high fuel prices, increased domestic competition, tight labour markets, high airport charges and other cost pressures will test the business in the second half of the 2008 financial year.

The airline business is constantly evolving and while our strategic direction remains as valid today as when it was formulated in 2003, we continue to adapt our tactics and initiatives, to take advantage

of emerging opportunities, changing competitive dynamics and economic conditions.

Strengthening our position in the New Zealand domestic market is one of our key strategic priorities. We commenced a strategic review of our domestic operation in early 2007 and as a result we are continuing to introduce many changes to deliver the best customer experience at very competitive prices. We will also continue to expand our offering and are currently securing two additional 737 series aircraft to enable us to offer prime-time jet services to at least two of the provincial centres.

Our international focus remains on customer service and international sales strategy. With initiatives such as the in-flight concierge our priority is to be the airline of choice on all our international routes. We intend to start flying from Auckland to Beijing in July ahead of the Olympics and therefore marketing in the Beijing region is now a high priority.

Over recent years we have placed significant strategic importance on becoming a fast and more nimble company, able to adapt and grasp opportunities faster than our competitors. In such a dynamic industry the ability to move at pace represents a key advantage and an important source of shareholder value.

Our next challenge is to take full advantage of this platform by finding ways to improve productivity, customer satisfaction and increase returns to shareholders. We are currently growing other

non-airline revenue sources in areas such as aircraft interior design, technical training and engineering.

I am confident that we are well positioned to address the challenges and capitalise on the opportunities given our strong financial position, continued innovation in both our short-haul and long-haul businesses, network flexibility and a relentless focus on delivering world class customer service.

Back to Roger.

In conclusion, jet fuel prices remain high and as favourable hedges roll off, a significant additional cost burden will be placed on the business. The arrival of a new competitor in the domestic market, the impact of the well publicised international credit crunch on the wider economy and a continued tight labour market will test the Company's resilience and ability to adapt over the coming year.

Air New Zealand still expects to better 2007 normalised earnings before taxation and unusual items in 2008, however oil price volatility has reduced the certainty with which the Company can forecast its year-end financial performance.

We would now be happy to take your questions.