

October 13th 2021

Air New Zealand Limited (AIR)

The company will hold its Annual Shareholders Meeting at **1.00pm Thursday 28 October 2021**.

It will be a virtual meeting. You can join the meeting online at <https://www.virtualmeeting.co.nz/>

Company Overview

Air New Zealand is regarded as the country's national airline. Prior to Covid-19 it flew 17 million passengers each year on 3400 flights each week. Whilst international travel is still constrained domestic capacity returned to 93% pre-Covid-19 in the three months to July 2021. Cargo revenue was up 71 percent on the prior year, supported by the New Zealand and Australian Government's IAFC, MIAC and IFAM schemes (the airfreight support schemes).

Last year the Government who hold 51% of the shares provided a \$900 million facility to the company. The company was intending to undertake a capital raise by 30 June 2021 however the Minister of Finance advised the company that the Government did not believe it was appropriate to do so in the current environment. The capital raise has been deferred to the first quarter of calendar 2022.

Three Directors Jan Dawson, Rob Jager and Linda Jenkinson will retire at the ASM with three new appointments, Alison Gerry, Claudia Batten and Paul Goulter will join the Board.

Current Strategy

It would appear post Covid-19 the company will seek to service the New Zealand market and the Asia Pacific rim. Prior to Covid-19 its had been winding down its operations in destinations beyond this.

Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

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Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	See comments below.
Director share ownership	A	Not disclosed if Directors are required to own shares.
Executive Remuneration	A	See comments below.
Golden parachutes/handshakes	A	Not disclosed if these or similar payments are offered.
Director Independence	G	All Directors are Independent
Board Composition	A	See comments below.
Director Tenure	G	All Directors have served less than 9 years
ASM Format	G	Virtual meeting due to Covid uncertainty
Company Sec independence	G	Generally good disclosure although not disclosed if a profit-based incentive is paid.

Directors Fees: While disclosure is generally clear, there is no disclosure as to whether retirement benefits are available for Directors.

Executive Remuneration: NZSA appreciates the clear and detailed disclosures related to Executive remuneration in the annual report.

We note that the CEO and other senior executives agreed to reduce their fixed remuneration by 15% during the financial year, as a result of the impact of Covid-19. We also note that the STI scheme was suspended, with no payment made.

For incentive schemes, NZSA encourages fulsome disclosure in relation to short-term (STI) and long-term (LTI) incentives paid to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets and the level of achievement associated with any awards – a position broadly supported by the NZX Code of Corporate Governance.

AIR discloses both the target and maximum STI opportunity for the CEO (55/110% of base remuneration). While the measures, targets and achievement level for each are not disclosed for 2021, we're pleased to see that AIR has disclosed some detail on the measure groups and weightings for FY2022 STI calculation, with a reduction in the maximum STI opportunity to 96.25% of base remuneration (target STI remains at 55%).

Measures, weightings and targets associated with the LTI award for the CEO are clearly disclosed.

NZSA prefers a weighting towards long-term incentive rewards, based on total shareholder return. Based on values disclosed in the annual report, this is not the case with AIR. We also note that the total incentive (STI + LTI) opportunity for the CEO is greater than the level of base salary. Mitigating this somewhat, we note that the CEO is required to purchase shares in AIR to the equivalent of 55% of base remuneration.

It is not disclosed if the CFO and Internal Auditor pay includes profit-based incentives.

Board Composition: Generally good disclosure. We note that while only one Board member has executive experience within an airline, the Board also contains members with executive experience in logistics and tourism.

We note that the company does not participate in the IoD’s “Future Directors Programme”. While we recognise the disruptive dynamic currently faced by Air New Zealand, NZSA feels that the company would provide an effective experience for emerging directors, given its status within the New Zealand listed-issuer community.

We do note that Laurissa Cooney, a recipient of the IoD’s ‘Emerging Director’ Award in 2017 has been on the company’s Board since 2019.

Director Tenure: NZSA looks for evidence of ongoing succession or ‘staggered’ appointment dates that allow effective knowledge transfer in the event of succession. We note that Air New Zealand have a range of appointment dates between 2013-2020, reducing the risk of knowledge loss for investors and ensuring that the company can manage director succession effectively within appropriate timelines. We note that all directors have served less than 9 years.

NZSA appreciates clear signals from companies in relation to succession, in order to ensure long-term governance sustainability.

ASM Format: While NZSA prefers ‘hybrid’ ASM’s (ie, physical and virtual) as a way of promoting shareholder engagement while maximising participation, we understand the company’s approach in planning a virtual-only meeting given the current Covid-19 restrictions across New Zealand.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Good disclosure
Audit rotation	A	See comments below.

Audit Rotation: Whilst the company ensures the Lead Audit Partner is rotated at 5 years it does not disclose if the Audit Firm is rotated at 10 years. Like many other companies on the NZX, it also does not disclose the appointment dates of the Lead Audit Partner or the Audit Firm.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure.
Political donations	G	No donations are made.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	n/a	There was no dividend paid
Capital Raise process	n/a	There was no capital raising

Air New Zealand's share price rose from \$1.42 to \$1.50 (as of August 27th) over the last 12 months – a 6% return. This compares with the NZX 50 which increased by 9% in the same period. The *Performance Factor* for AIR is 0.65. A copy of the financial statements can be found [here](#).

Metric	2021	2020	Change
Revenue	\$2,517m	\$4,836m	-46%
NPAT	-\$289m	-\$454	-36%
EPS ¹	-\$0.257	-\$0.404	n/a
PE Ratio	n/a	n/a	
Current Ratio	0.35	0.48	-27%
Debt Equity	5.06	4.72	7%
Operating CF	\$323m	\$230	40%
NTA Per Share ¹	\$0.82	\$1.01	-18%
Equity per Share ¹	\$0.98	\$1.17	-16%
Dividend Per Share ¹	n/a	n/a	n/a

¹ per share figures based off actual shares at balance date (not weighted average)

Air New Zealand had a tough year, impacted adversely by globally imposed covid restrictions. *Revenues* were down 46% to \$2,517m and a net loss after tax of \$289m was declared. Subsequently EPS came in at -\$0.257.

The *current ratio* also declined to 0.35 and without the government's loan package and financial assistance AIR would struggle to exist as a going concern. Debt levels also increased and are very high with the *debt equity ratio* increasing by 7% to 5.06. Debt levels are exacerbated by IFRS16 requirements that require lease obligations to be on the balance sheet.

Operating cash flow was positive and increased from \$230m to \$323m. This has been partly supported by the deferral of Fringe Benefit Tax (FBT) and employee tax deductions (PAYE) of \$254m in the period 1 July 2020 to 30 September 2021.

"In the prior year the New Zealand Government introduced legislation to lessen the impact of Covid-19 on businesses by allowing for the deferral of the payment of taxes without the imposition of penalties or interest. The Group was granted a deferral of FBT and PAYE for the period 1 July 2020 to 30 September 2021. The FBT and PAYE liabilities arising during this period will be settled during January 2022 to March 2022. As at 30 June 2021 the Company had deferred FBT and PAYE of \$254 million (30 June 2020: Nil)."

This deferral and continuing struggle to operate profitably will impact their ability to trade whilst solvent and AIR have signalled the requirement for an injection of capital in one form or another.

Resolutions

1. To elect Claudia Batten as an Independent Director.

Claudia Batten is the Chair of Serko, a Director at Vista Group New Zealand, and the digital advisor to the Westpac New Zealand board. She has recently returned to New Zealand after living in the US where she is a co-founder of two technology ventures.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To elect Alison Gerry as an Independent Director.

Alison Gerry is currently a Director at ANZ Bank New Zealand, Infratil Limited, and is the founding Chair of Sharesies and is a Director at Suncorp New Zealand. She was formerly a Director at Spark, TVNZ, Kiwibank and Queenstown and Wellington Airports.

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. To elect Paul Goulter as an Independent Director.

Paul Goulter is the National Secretary of NZEI Te Riu Roa (New Zealand's largest education union) and a Director of the Co-operative Bank. He was formerly Secretary of the New Zealand Council for Trade Unions and as General Secretary of Finsec (the financial sector union).

We will vote undirected proxies **IN FAVOUR** of this resolution.

Proxies

You can vote online or appoint a proxy at <https://vote.linkmarketservices.com/AIR/>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **1.00pm Tuesday 26 October 2021.**

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

STANDING PROXIES - AUTOMATICALLY APPOINT NZSA AS YOUR PROXY

MAKE YOUR VOTE COUNT!

Details on the NZSA website.

<http://www.nzshareholders.co.nz/shareholders-standing-proxies.cfm>

The Team at NZSA