

7 September 2022



Air New Zealand Limited (AIR)

The company will hold its Annual Shareholders Meeting at **2.00pm Thursday 22 September 2022**.

The location is **Ellerslie Event Centre – Tote on Ascot 100 Ascot Avenue, Remuera, Auckland**.

You can also join the meeting online at <https://virtualmeeting.co.nz>

Company Overview

To say the company has had a difficult few years would be an understatement. The impact of Covid resulted in the company recapitalising its business to the tune of \$2.2 billion during the year. With the borders now open the company expects FY23 to represent the first full year of uninterrupted passenger flying since the beginning of the pandemic. Total flying capacity for FY23 is expected to be in the range of 75 percent to 80 percent of pre-Covid levels. On this basis, the airline anticipates a significant improvement in financial performance.

Current Strategy

The strategy is to meet demand as economic conditions improve.

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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

Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	A	See below.
Director share ownership	A	See below.
Executive Remuneration	G	See below.

Policy Theme	Assessment	Notes
Golden parachutes/handshakes	A	Not disclosed if these are similar payments are offered.
Director Independence	G	All Directors are independent.
Board Composition	A	See below.
Director Tenure	G	See below. All Directors have served less than 9 years.
ASM Format	G	Hybrid. See below.
Independent Advice for the Board	G	See below.

Directors Fees: Not disclosed if special exertion payments are made.

Director share ownership: Directors are expected to accumulate the equivalent of 50% of their base fee over a 3-year period. Whilst NZSA strongly encourages Directors to hold shares we believe it should not be mandatory and be up to individual Directors to determine based on their personal circumstances.

Executive Remuneration: Generally good disclosure. The CEO is paid a salary, a short-term incentive (STI) and a long-term incentive (LTI). The salary and STI are paid in cash and the LTI by way of performance share rights. The STI target is set at 55% of the base as is the LTI. NZSA prefers the STI to be no more than 33% of total incentives to ensure the CEO's interests are aligned with shareholders. In addition, the CEO is required to hold shares equivalent to 55% of the base salary.

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets and the level of achievement associated with any awards.

Board Composition: The company does not participate in the IoD's Future Director programme designed to develop and mentor the next generation of Directors. NZSA expect NZX50 companies to participate as part of a responsibility to develop and mentor the next generation of Directors.

Whilst the Annual Report includes a skills matrix it does not attribute skill sets to individual Directors to demonstrate how they contribute to the governance of the company.

Director Tenure: NZSA looks for evidence of ongoing succession or 'staggered' appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

ASM Format: NZSA prefers 'hybrid' ASM's (i.e., physical, and virtual) as a way of promoting shareholder engagement while maximising participation.

Independent Advice for the Board: NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities. We also look for evidence that Boards are across their risk management responsibilities. In both cases there are comprehensive disclosures.

Audit

NZSA assessment against its key policy criteria is summarised below:

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

Audit Rotation: Due to the Crown's majority ownership the Auditor General appoints the Auditor. The Lead Audit Partner is rotated at 5 years as required by the NZX Listing Rules however the Audit Firm rotation is determined by the Auditor General. NZSA also expects disclosure of the appointment dates of the Lead Audit Partner and Audit Firm to improve transparency for investors.

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

[summary of recent performance]

Policy Theme	Assessment	Notes
Dividends and Imputation	n/a	No dividend was paid.
Capital Raise process	G	See below.
Takeover or Scheme	n/a	<i>n/a if no takeover</i>

Capital Raise process The company raised \$2.2 billion, \$1.2 billion by way of a renounceable rights offer and the balance by way of redeemable shares and a loan both to the Crown as the major shareholder. Renounceable rights offers are NZSA's preferred method as they allow shareholders to maintain their proportionality and indicate companies respect for existing shareholders.

Air New Zealand's share fell from \$0.90 to \$0.69 (as of August 15th) over the last 12 months – a 24% decline. This compares unfavourably with the NZX 50 which declined by 7% in the same period. The capitalisation of AIR is \$2.3b placing it 23rd out of 131 companies on the NZX by size and makes it a large company.

Metric	2022	2021	Change
Revenue	\$2,734m	\$2,517m	9%
Operating Earnings	-\$4m	\$334m	n/a
NPAT	-\$591m	-\$289m	n/a
EPS ¹	-\$0.175	-\$0.257	n/a
PE Ratio	n/a	n/a	
Capitalisation	\$2,307m	\$1,011m	128%
Current Ratio	0.79	0.35	124%
Debt Equity	3.98	5.06	-21%
Operating CF	\$550m	\$323m	70%
NTA Per Share ¹	\$0.45	\$0.82	-45%
Equity per Share ¹	\$0.50	\$0.98	-49%
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 another tough year impacted adversely by domestic and globally imposed covid restrictions. The majority shareholder contributed to their poor performance by imposing domestic restrictions which impacted AIR negatively. However, during the year restrictions were slowly eased and AIR managed to increase its operations and activity.

Revenue was up 9% to \$2,734m driven primarily by Cargo revenue which was up 32% to \$1,016m. Pricing pressures, particularly on fuel and labour, meant Operating Expenses rose by 25% which contributed to a fall in operating earnings to -\$4m. This compares unfavourably with FY21 when AIR delivered \$334m operating earnings.

As was well signalled by media and other outlets, AIR completed a large recapitalisation and share issue which netted \$1,756m. These funds were utilised for working capital purposes and to pay back deferred FBT and PAYE Tax. The number of shares on issue increased dramatically from 1.1b to 3.4b.

On the back of this capital raise the current ratio increased to 0.79. Total debt levels also increased with an extra \$572m of long-term debt taken on but the debt equity ratio declined from 5.06 to 3.98. Debt levels are exacerbated by IFR16 requirements that state lease obligation must be on the balance sheet, however an obligation, lease or not, is still an obligation.

NTA per share declined from \$0.82 to \$0.45.

Pleasingly Operating cash flow was positive and increased from \$323m to \$550m.

In a forward looking statement contained in a [comprehensive presentation](#), AIR stated that: “With borders now open to the majority of the airline’s markets, Air New Zealand expects the 2023 financial year to represent the first full year of uninterrupted passenger flying since the beginning of the pandemic. Total flying capacity for the 2023 financial year is expected to be in the range of 75 percent to 80 percent of pre-Covid levels. On this basis, the airline anticipates a significant improvement in financial performance relative to financial year 2022. Given the degree of uncertainty regarding

volatility in jet fuel prices, the risk of a global recession, and other macroeconomic factors including inflationary pressures on costs, no earnings guidance will be provided at this time”.

Resolutions

1. To re-elect Dame Therese Walsh as an Independent Director.

Dame Therese Walsh was appointed to the Board 1 May 2016 and is the Chair. She is also the Chair of ASB Bank Ltd., Chair of the Chapter Zero NZ steering group and a Director of Antarctica New Zealand. Previously she was the Head of New Zealand for the ICC Cricket World Cup 2015, and the Chief Operating Officer for Rugby New Zealand 2011 Ltd. She has also been Chair of TVNZ Ltd., Pro Chancellor of Victoria University Wellington, a Director of NZX Ltd and Contact Energy Ltd. She became a Dame Companion of the New Zealand Order of Merit in June 2015.

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

2. To re-elect Jonathan Mason as an Independent Director.

Jonathan Mason was appointed to the Board 1 March 2014. He was formerly Fonterra Co-operative Group’s Chief Financial Officer. His current directorships include Vector Limited, Westpac New Zealand Limited, and Zespri Group Limited, and he is a member of the University of Auckland Council. He also serves as an Adjunct Professor of Management at the University of Auckland, specialising in international finance. He has advised his intention to step down from the Board in 2023.

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

3. To ratify the entry into and performance by the Company of the Amended Crown Loan Facility.

This relates to The Original Crown Loan Facility, as amended, and restated on 10 May 2021, subsequently amended pursuant to a letter of amendment dated 30 September 2021 and most recently amended and restated on 13 December 2021. Full details are set out in the Notice of Meeting.

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

4. To ratify the entry into and performance by the Company of the New Crown Loan Facility.

This relates to the facility agreement dated 30 March 2022 between the Company and the Crown in respect of a new unsecured revolving facility of \$400 million (to replace the Amended Crown Loan Facility). Full details are set out in the Notice of Meeting.

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 **2.00pm Tuesday 20 September 2022.**

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

The Team at NZSA