

12 September 2023

Air New Zealand Limited (AIR)



The company will hold its Annual Shareholders Meeting at **2.00pm Tuesday 26 September 2023.**

The location is **Members Lounge – Sky Stadium 105 Waterloo Quay, Pipitea, Wellington.**

You can also join the meeting online [at this link](#).

Company Overview

Following the Covid disruption over the past three years the company has made a significant recovery hiring 3000 staff and adding and ordering new aircraft as it gets back to pre-Covid operating levels. It believes 2024 will be more reflective of future financial performance however it is mindful of international competition, volatile fuel prices, a weaker New Zealand dollar, ongoing wage inflation and increased airport charges.

Current Strategy

The Annual Report contains 35 references to strategy, but none encapsulates succinctly the overall strategy of the company and its short-term and longer-term goals.

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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	G	See below.
Director share ownership	G	See below.
Executive Remuneration	G	See below.
Golden parachutes/handshakes	A	Not disclosed if these or similar payments are offered.
Director Independence	G	All Directors are independent.
Board Composition	G	See below.
Director Tenure	G	See below.
ASM Format	G	Hybrid meeting.
Independent Advice for the Board and Risk Management	G	See below.

Director Fees: Generally excellent disclosure, however we would prefer an explicit statement that retirement benefits are not paid to Directors (the constitution is silent).

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. A share ownership threshold implies that only wealthy individuals can be a director at Air New Zealand; NZSA believes that wealth is no arbiter of quality. Compulsion also reduces the 'market signal' impact for directors buying shares.

Nonetheless, we there is a clear mitigation offered both in terms of quantum (50%) and timeframe (3 years) required that offsets diversity concerns.

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 a weighting towards long-term incentive to align with the long-term interests of shareholders.

In addition, the CEO is required to hold shares equivalent to 55% of the base salary.

Air New Zealand provides fulsome disclosure in relation to the incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets, and the level of achievement versus target for each component associated with any awards.

Board Composition: The company does not participate in any 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.

Board appointment dates range from 2014 to 2021.

Independent Advice for the Board & Risk Management: 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.

Directors can with prior approval of the Chair seek independent external advice. The General Counsel and Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board. The Head of Internal Audit reports functionally to the Audit & Risk Committee and administratively to the Chief Financial Officer.

There are comprehensive disclosures in the Annual Report and Sustainability Report around financial, non-financial, business and operations risks and how these are governed.

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 Crowns 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.

Environmental Sustainability

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment
Approach	G
Sustainability Governance	G

Policy Theme	Assessment
Strategy and Impacts	G
Risk and Opportunity	G
Metrics and Targets	G
Assurance	A

Overall approach: Air New Zealand has been preparing separate Sustainability Reports since 2015. In the letter from the Chair and CEO, they say they know the challenges of climate change are significant, acknowledging that aviation is one of the hardest sectors to transition, with few levers available to them, and many of which they can't control. Although the company is much more constrained in their ability to change their environmental impacts, Air New Zealand has good disclosure in all areas of sustainability reporting which the NZSA assesses them against.

Sustainability Governance: Although Air New Zealand does not describe having a skills matrix, they do show the level of eight skill areas, including sustainability, represented by Board members. Air New Zealand also has a Sustainability Advisory Panel.

Strategy and Impact: Considering the aviation industry's heavy reliance on fossil fuels, climate change has been identified as having a major impact on the airline's strategy and Air New Zealand has developed a transition plan. They have also identified a number of impacts on their strategy beyond climate change.

Risk and Opportunity: Air New Zealand has conducted a thorough analysis of the risks they face, categorised as physical or transitional. They also identify associated opportunities across the short to long term.

Metrics and Targets: Air New Zealand discloses their Scope 1-3 GHG Emissions with limited assurance provided by Deloitte with comparative data over multiple years. Their primary environmental target is a 2030 carbon reduction target developed in accordance with the Science Based Target Initiative.

Assurance: While it is pleasing to see Air New Zealand has sought limited assurance for its GHG Inventory Report, there is the opportunity for them to seek external assurance for other claims made within their Sustainability Report.

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
Capital Management	G	There was no capital raising. Good disclosure around dividends.
Takeover or Scheme	n/a	n/a if no takeover

Air New Zealand's share rose from \$0.65 to \$0.78 (as of August 29th) over the last 12 months – a 20% increase. This compares favourably with the NZX 50 which remained flat in the same period. The capitalisation of AIR is \$2.6b placing it 20th out of 128 companies on the NZX by size and makes it a large company.

Metric	2021	2022	2023	Change
Revenue	\$2,517m	\$2,734m	\$6,330m	132%
Operating Earnings	\$334m	-\$4m	\$1,286m	n/a
NPAT	-\$289m	-\$591m	\$412m	n/a
EPS ¹	-\$0.257	-\$0.175	\$0.122	n/a
PE Ratio	n/a	n/a	6	
Capitalisation	\$1,011m	\$2,189m	\$2,627m	20%
Current Ratio	0.35	0.79	0.85	8%
Debt Equity	5.06	3.98	3.42	-14%
Operating CF	\$323m	\$550m	\$1,853m	237%
NTA Per Share ¹	\$0.82	\$0.45	\$0.57	25%
Equity per Share ¹	\$0.98	\$0.50	\$0.62	24%
Dividend Per Share ¹	n/a	n/a	\$0.06	n/a

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

Air New Zealand had a very good year now that restrictions on movement have been lifted, a situation well-covered across most media.

Revenue was up 132% to \$6,330m driven primarily by passenger revenue which was up 262% to \$5,349m. Although pricing pressures, particularly on fuel and labour, meant Operating Expenses rose by 84% to \$5,044m, Operating Earnings were vastly improved to a positive \$1,286m.

The company is in reasonably sound financial state with a current ratio of 0.85. Total debt levels also decreased with \$110m of long-term debt retired and the debt equity ratio declined from 3.98 to 3.42. Debt levels are exacerbated by IFRS16 requirements that state lease obligation must be on the balance sheet, and AIR have a large number of leases.

NTA per share increased from \$0.45 to \$0.57 and shares trade at a 38% premium to NTA.

Operating cash flow continued to increase and was up substantially to \$1,853m.

On the back of improved performance, the company announced a fully imputed special dividend of 6 cents per share.

In a mixed forward-looking statement contained in a [comprehensive investor presentation](#) released on 24th August 2023, AIR stated that: "Looking ahead to the first half of the 2024 financial year, customer demand remains strong across our markets. We are mindful of the uncertain economic environment however and acknowledge there are a number of factors that may impact future

customer demand and profitability. These factors include increased international competition, volatile fuel prices, a weaker New Zealand dollar, ongoing wage inflation and increased airport charges. Given the uncertainty and volatility of some of these macroeconomic factors, the airline will not be providing guidance at this time”.

The Crown is the largest shareholder with a 51% controlling stake.

Resolutions

1. To re-elect Dean Bracewell as an Independent Director.

Dean Bracewell was appointed to the Board in April 2020. He has significant experience in the freight and logistics industry, with the majority of his career spent at Freightways Limited (Freightways) where he held a number of senior leadership and Executive roles, including most recently as Managing Director from 1999 to 2017. He is a Director of Tainui Group Holdings Limited, Property for Industry Limited, Port of Tauranga Limited and the Halberg Foundation. He was also a director of the public policy think tank The New Zealand Initiative and its predecessor the New Zealand Business Roundtable from 2011 to 2015.

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

2. To re-elect Laurissa Cooney as an Independent Director.

Laurissa Cooney was appointed to the Board in October 2019. She has previously held senior manager, auditing and consulting roles with Deloitte in New Zealand and Deloitte Touche in London and was the Chief Financial Officer for Te Whare Wānanga o Awanuiārangi. She currently serves as the Chair of Tourism Bay of Plenty and is an Independent Non-Executive Director for Goodman Property Ltd, Accordant Group Ltd and Aotearoa Circle and a Trustee on the Charitable Investment Trust for Ngāi Tai ki Tāmaki. She also holds a role as co-chair for the Tourism Industry Transformation Plan for the environment with MBIE. Laurissa is also a Committee Member of the Chapter Zero NZ Steering Group and was a 2017 recipient of the Institute of Directors Emerging Director Award.

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

3. To re-elect Larry De Shon as an Independent Director.

Larry De Shon was appointed to the Board in April 2020. He has more than 40 years' experience in the Aviation and transportation industries. Prior to joining Air New Zealand's Board, he was Chief Executive Officer of Avis Budget Group Inc where he was responsible for more than 30,000 employees globally. He also spent 28 years with United Airlines where he held a number of Executive roles across key business areas such as Airport Operations, Marketing and On-Board Service. He is a non-executive director for The Hartford Financial Services Group Inc, a US-based Fortune 500 investment and insurance company, and for United Rentals Inc, the largest equipment rental company in the world

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 Sunday 24 September 2023.**

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

The Team at NZSA