



The Rural Land **Investors**

**24 November 2022**

Dear Shareholder,

Please find enclosed notice (**Notice**) of New Zealand Rural Land Company Limited's (**NZL** or the **Company**) annual meeting (**Meeting**) which will be held on Thursday 8 December 2022 at Link Market Services' Offices, Level 30, PwC Tower, 15 Customs Street West, Auckland 1010, starting at 2:30pm.

Capitalised terms used in this letter will, unless otherwise defined, have the meaning given to them in the Glossary, contained in the enclosed Notice.

### **Background**

As announced on the NZX on 21 October 2022, NZL, through its wholly owned subsidiary, NZRLC Dairy Holdings Limited, has entered into an agreement to acquire up to 100% of a forestry estate located in the Manawatū-Whanganui region in the North Island (**Acquisition**). The estate is comprised of five individual properties with a total area of approximately 2,400 hectares (**Estate**) for a total cost of approximately \$63 million. The cost includes the assets as well as transaction and administrative costs that may fluctuate immaterially. Settlement of the Acquisition is scheduled to occur on 15 April 2023.

NZL has also entered into a leasing agreement with New Zealand Forest Leasing Limited (**NZFL**) for the entire Estate to be leased to NZFL for a period of 20 years.

The Acquisition will be funded using a combination of debt and equity - the equity component of which NZL may fund using a variety of sources including reallocation of capital within the group and borrowing capacity. There is an option for NZL's tenant partner, NZFL to purchase up to approximately 48% of the asset if required.

If shareholders approve the Acquisition, the forestry Estate will be the first forestry land in NZL's portfolio. A full list and details of NZL's current landholdings can be found here: <https://www.nzrlc.co.nz/our-landholdings>.

### **Board Recommendation**

The Board considers that the Acquisition is in the best interests of NZL and its shareholders and recommends that shareholders vote in favour of the resolution outlined in this Notice. The Board encourages you to read this Notice and to exercise your right to vote.

The **enclosed** proxy form has detailed instructions on how shareholders may lodge their vote or appoint a proxy to vote on their behalf if they are unable to attend the meeting online.

Shareholders attending the meeting virtually will be given the opportunity to raise questions.



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Shareholders may also submit written questions on the bottom of the Proxy Form. The main themes will be aggregated and responded to at the Meeting. Alternatively, written questions can be sent online at <https://investorcentre.linkmarketservices.co.nz/voting/NZL> or by email to [meetings@linkmarketservices.com](mailto:meetings@linkmarketservices.com).

I look forward to seeing you at the meeting.

Rob Campbell  
**Chairman**



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## NOTICE OF ANNUAL MEETING

If you have sold or otherwise transferred all of your shares in NZL, please pass this Notice, together with all accompanying documents, as soon as possible to the purchaser or transferee or to the broker or other person who arranged the sale or transfer of your shares.

Notice is hereby given that the annual meeting (**Meeting**) of shareholders of New Zealand Rural Land Company Limited (**NZL** or the **Company**) will be held on **Thursday 8 December 2022** at Link Market Services' Offices, Level 30, PwC Tower, 15 Customs Street West, Auckland 1010, starting at **2:30pm**.

### AGENDA

- A. Chairman's introduction.
- B. Presentation to shareholders.
- C. Questions.
- D. Resolutions.

### BUSINESS

A. **Annual Report** - To receive and consider NZL's 2022 Annual Report containing the financial statements and the auditor's report for the year ended December 2022.

### B. RESOLUTIONS

To consider and, if thought fit, to pass the following ordinary resolutions:

1. **Auditor's Remuneration:** that the Board be authorised to fix the fees and expenses of the Company's Auditors.
2. **Approval of Acquisition:** That, under Listing Rule 5.1.1(b), NZL undertaking the Acquisition of the Estate and all related transactions to give effect to the Acquisition on the basis described in this Notice, is approved.

### PROCEDURAL NOTES

#### Proxies

Any shareholder of NZL who is entitled to attend and vote at the Meeting may appoint a proxy to attend and vote on their behalf. A corporation which is a shareholder may appoint a representative to attend the Meeting on its behalf in the same manner as it could appoint a proxy. A proxy does not need to be a shareholder of NZL. A Proxy Form can be returned by delivery, mail, email, or online (as set out below).



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The Chairman of the Meeting (Rob Campbell) and any of the Directors are prepared to act as proxy. Where any Director is appointed as a discretionary proxy and is not prohibited from voting, each of the Directors intends to vote in favour of all of the Resolutions.

Voting restrictions apply to each of the Directors (and persons associated with them) as detailed below and shareholders are encouraged to give express voting directions to any Director that they appoint as their proxy.

To appoint a proxy, you should complete and sign the enclosed Proxy Form and either return it by delivery, mail or email to the share registrar of NZL:

<b>By delivery:</b> New Zealand Rural Land Company Limited C/- Link Market Services Limited Level 30, PwC Tower 15 Customs Street West Auckland 1010	<b>By mail:</b> New Zealand Rural Land Company Limited C/- Link Market Services Limited PO Box 91976 Auckland 1142
<b>By email:</b>	<a href="mailto:meetings@linkmarketservices.com">meetings@linkmarketservices.com</a> (please put the words "NZL Proxy Form" in the subject line for easy identification).

You may also lodge your proxy online at <https://investorcentre.linkgroup.nz/voting/NZL>. You will require your CSN/ Holder Number and FIN to complete your proxy appointment. A shareholder will be taken to have signed the Proxy Form by lodging it in accordance with the instructions on the website.

The completed Proxy Form must be received by Link Market Services no later than 48 hours before the Meeting, being **Tuesday 6 December 2022, 2:30pm**. Online proxy appointments must also be completed by this time. Registered shareholders at that time will be the only persons entitled to vote at the Meeting and only the shares registered in those shareholders' names at that time may be voted at the Meeting.

### Shareholder Questions

Shareholders attending the meeting virtually will be given the opportunity to raise questions.

Shareholders may also submit written questions on the bottom of the Proxy Form. The main themes will be aggregated and responded to at the Meeting. Alternatively, written questions can be sent online at <https://investorcentre.linkmarketservices.co.nz/voting/NZL> or by email to [meetings@linkmarketservices.com](mailto:meetings@linkmarketservices.com).

NZL reserves the right not to address questions that, in the Chair's opinion, are not reasonable in the context of an annual shareholder meeting, or any written questions that are not received by **2:30pm on Tuesday, 6 December 2022**.

### Ordinary Resolutions

All resolutions are ordinary resolutions. An ordinary resolution is a resolution passed by a simple majority of votes of those shareholders entitled to vote and voting on the resolutions in person or by proxy.



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## **Voting Restrictions**

There are no voting restrictions applicable to the Resolution.

## **NZ RegCo No Objection**

This Notice has been reviewed by NZX Regulation Limited (**NZ RegCo**). NZ RegCo has confirmed it has no objection to this Notice but takes no responsibility for the contents of this Notice.



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## EXPLANATORY NOTES

### Resolution 1: Auditor's Remuneration

Section 207T of the Companies Act 1993 provides that a company's auditor is automatically reappointed unless there is a resolution or other reason for the auditor not to be re-appointed. NZL wishes PricewaterhouseCoopers (**PWC**) to continue as NZL's auditor.

Section 207S of the Companies Act 1993 provides that the fees and expenses of the auditor are to be fixed in such a manner as the company determines at the meeting.

This resolution authorises the Board to reappoint PWC as NZL's auditor and fix the fees and expenses of the auditor for the current financial year.

### Resolution 2: Approval of Acquisition of Estate

#### *Summary*

On 21 October 2022, New Zealand Rural Land Company Limited (**NZL**), through its wholly owned subsidiary, NZRLC Dairy Holdings Limited, entered into a series of transactions to acquire up to 100% of five individual properties that make up a forestry estate located the Manawatū-Whanganui region in the North Island (**Acquisition**), being the Mangamahu Forest, Mahuri Forest, Paparangi Central Forest, Paparangi Home Block Forest and Paparangi Northern Block (together, the Estate). The total cost of the Estate amounts to approximately \$63 million subject to final costs, which includes associated transaction costs and administrative costs. The total value of the Estate itself is \$62.2million. Completion is scheduled for 15 April 2023 (**Completion**). NZL has nominated its wholly owned subsidiary company, SSP NI Limited (**SSP**), to purchase the Estate.

NZL has entered into a leasing agreement with New Zealand Forest Leasing Limited (**NZFL**) for NZFL to lease the Estate for a term of 20 years (the **Lease Agreement**).

In addition, SSP and NZL have entered into a subscription agreement with NZFL (**Subscription Agreement**) where NZFL may subscribe for up to 18 million ordinary shares in SSP for \$1.00 paid per share (**Subscription Amount**). The Subscription Amount will be determined by NZL 10 business days before the Completion date. If the maximum amount of \$18 million is the Subscription Amount, NZFL would hold 48.23% of all ordinary shares in SSP with NZL holding the balance.

Should NZFL acquire any shares in SSP under the Subscription Agreement, NZL has the ability to require NZFL to sell all or some of the ordinary shares in SSP to NZL at any time. In addition, NZFL has the ability to give notice to NZL 18 months after the SSP shares have been issued, to require NZL to purchase all or some of the SSP shares from NZFL. The price payable for the SSP shares will be at market value.

Should NZFL hold any ordinary shares in SSP as a result of the Subscription Agreement, it will have the right to appoint, remove and replace one director of SSP at any time while it holds the ordinary shares in SSP. If NZFL holds more than 30% of the ordinary shares in SSP as a result of the Subscription Agreement, it will have the right to appoint, remove and replace one additional director of SSP at any time while it holds the ordinary shares in SSP. At all times, NZL would have the ability to appoint, remove and replace two SSP directors at any time.



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SSP, as nominee under the property agreements, must use all of the Subscription Amount received to fund the Acquisition. In consideration, NZL will pay an underwriting fee equal to 3% of the Subscription Amount to NZFL. Should NZL unconditionally secure enough funding for the entire purchase price for the Estate without relying on the Subscription Agreement, the Subscription Agreement will be terminated.

If shareholders approve the Acquisition, the Estate will be the first forestry land in NZL's portfolio. A full list and details of NZL's current landholdings can be found here: <https://www.nzrlc.co.nz/our-landholdings>.

### *About the Acquisition*

The Estate comprises of five freehold properties: the Mangamahu Forest, the Mahuri Forest, the Paparangi Central Forest, the Paparangi Home Block Forest and the Paparangi Northern Block. The Estate is currently owned by a consortium of investors who are selling together as a group to achieve a sale at scale (**Vendors**).

NZL has entered into five separate but interdependent property agreements for the legal ownership of the land and trees in each of the respective titles (**Property Agreements**). Each Property Agreement is drafted under the same terms and conditions, in a customary form of agreement for sale and purchase of real estate.

Each of the five separate Property Agreements are interdependent of each other and settlement of each Property Agreement is conditional upon the settlement of each of the other Property Agreements. There are no further outstanding conditions.

Details of the underlying properties in the Estate to be acquired, are as follows:

<b>Property</b>	<b>Total Area</b>
Mahuri Forest	790.43ha (including 21.04ha of trees only)
Mangamahu Forest	290.56ha (including 19.51 ha of trees only)
Paparangi Central Forest	428.07ha
Paparangi Home Block Forest	390.79ha
Paparangi Northern Block	499.81 ha (including 35.61 ha of trees only)
<b>Total</b>	<b>2399.0ha</b>

The Estate includes property of a total area of approximately 2,400ha, comprising of around 2,000ha of forest land, approximately 70% of which is registered as existing post-1989 forest land in the New Zealand Emissions Trading Scheme (**NZ ETS**) and currently aged 26/27 years.

The Board proposes to fund the Acquisition through a mixture of debt through a facility with Rabobank and equity. NZL may undertake an equity raise, but that will be dependent on market conditions and the ability of NZL to raise capital on terms and conditions that are fair and reasonable to NZL and all existing shareholders.

If market conditions are unsuitable for raising capital, NZL may fund the Acquisition through the following sources:

- a drawdown from NZL's debt facility with Rabobank of up to 40% of the purchase price of the Estate, being up to \$24.8 million;
- up to \$18 million from the Subscription Agreement; or
- reallocating capital by divesting certain existing dairy assets in the NZL portfolio to fund the remaining \$19.4 million.



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NZL currently has a \$107 million revolving credit facility with Rabobank. Rabobank has given indicative approval to increase its lending by \$24.8 million at Completion to partly fund the Acquisition. This borrowing may be structured as an increased facility limit under the current revolving credit facility, or it may be a new facility with Rabobank directly drawn to SSP. In either case, Rabobank will take a first mortgage over all land acquired under the Acquisition as security and NZL will guarantee repayment of the borrowing. Interest rates under the Rabobank borrowings are generally floating however from time-to-time NZL will enter interest rate swaps to fix the interest rate on tranches of the borrowings for specified periods. NZL anticipates that the borrowings will be subject to its existing key financial covenants:

- Interest coverage ratio must be greater than 2.0 times;
- Loan to valuation ratio must not exceed 40%; and
- Capital expenditure in each financial year shall not exceed 120% of the budgeted forecast capital expenditure.

### Benefits of the Acquisition

The Board considers the Acquisition to be in the best interests of NZL, as it will:

- Diversify NZL's rural land portfolio. At present NZL's portfolio is concentrated in pastoral assets in the South Island and the Acquisition will broaden the portfolio by geography and asset class into North Island Forestry.
- Enlarge NZL's rural land portfolio in line with NZL's acquisition and growth strategy as disclosed in its initial public offering product disclosure statement (see <https://www.nzrlc.co.nz/historical-ipo-documents>).
- Result in NZL owning assets that combat climate change through carbon sequestration.
- Introduce a new and experienced partner to NZL as a tenant and potential co-investor.

### Due Diligence

Prior to listing, NZL entered into a management agreement with the manager (**Management Agreement**), New Zealand Rural Land Management Limited Partnership (**Manager**). Under this agreement the Manager identifies potential acquisitions, undertakes due diligence (at the Manager's cost) and reports to the Board with a recommendation to proceed or not.

In relation to the Acquisition, the Manager entered a competitive bid process for the Estate. The Manager first undertook or commissioned legal, operational, environmental, and financial due diligence regarding the Estate and negotiated the terms of the Lease Agreements which contributed to the calculation of the purchase price.

The Manager has also undertaken due diligence on NZFL as the tenant and has determined that NZFL meets NZL's tenant criteria as set out in Acquisitions, Tenant and Leasing Policy (see <https://www.nzrlc.co.nz/company-information>).

The Manager reported to the Board in accordance with the Management Agreement which took into consideration the Lease Agreement terms and the third-party valuations and reports from the Manager's due diligence on the Estate and the tenant. Upon consideration of the Manager's report, the NZL Board approved the Manager's submission of its bid at the level of the purchase price of \$62.2million for the Estate, which was accepted by the Vendors.





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The Manager's report and associated valuations are confidential, commercially sensitive and will not be released to the public. The Estate will be valued by NZL for financial reporting purposes following Completion and that valuation will be the basis on which the Board establishes a carrying value for the Estate on its balance sheet. Accordingly the valuation obtained is not considered relevant or material for shareholders given it will not contribute to the determination of the Estate's carrying value.

NZFL has significant experience in the forestry industry. Established in 2010, NZFL owns more than 60,000ha of forests and leases a further 43,000ha. NZFL is one of the 10 largest freehold landowners in New Zealand.

NZFL is committed to best practice land management and stewardship. It has built an internal resource covering forest management, NZ ETS management, legal and finance. NZFL actively manages all of its forests, with an "every-tree counts" active forest management approach.

NZFL intensively manages for pests and predators to ensure high quality forests, working with local councils on predator control programs with 880 traps deployed and monitored, and eliminating approximately 2,500 pests every month (predominantly goats). This also benefits neighbouring properties with high yields whether grassland or forest.

### **The Lease Agreement**

NZL has entered into a Lease Agreement with NZFL to lease the Estate for a term of 20 years (Term), with the date of the lease commencing at Completion. The initial annual rental under the Lease Agreement will be approximately \$4.9m per annum which will then be subject to standard market rent review and CPI adjustments through the term of the lease. There are no obligations on NZL as a landlord at the end of the Term.

NZFL or its nominee will manage the forest and, if desired, be the NZ ETS participant for the Term. At the end of the term, NZFL would transfer the NZ ETS participation to NZL.

If NZFL is the NZ ETS participant during the Term, NZFL or its nominee would be the recipient of any carbon credits awarded in relation to the NZ ETS registered hectares comprised under the Property Agreements, including any awarded as a result of the final emissions return on the NZ ETS transfer of participation to NZL at the end of the Term. Neither NZL nor NZFL may harvest any of the NZ ETS registered tree crop during the Term of the Lease Agreement.

NZFL as the lessee will be responsible for paying all costs and expenses associated with:

- Complying and meeting all the monitoring, reporting and compliance obligations under the NZ ETS in respect of the registered hectares during the Term; and,
- Maintaining the forest.



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## Effect of the Resolution

### *Effect of Resolution passing*

If the Resolution is passed:

- NZL will have the flexibility to purchase up to 100% of the Estate with a lease agreement with NZFL for a 20-year term.
- NZL will have long term recurring revenue under the Lease Agreement, the initial year payment being approximately \$4.9m per annum.
- NZL will start to diversify its portfolio.

### *Effect of Resolution not passing*

The effect of the Resolution not passing is that NZL will be unable to acquire 100% of the Estate and, most probably by calling for investment under the Subscription Agreement, would have to limit the gross value of the assets NZL acquires under the Acquisition to approximately \$61.5 million. Accordingly, the Resolution not passing will not prevent NZL from undertaking the Acquisition but will determine whether NZL could hold 100% of SSP or whether SSP will have a minority shareholder.

## Risks

As with any transaction and any business, there are risks to the Acquisition.

Under each of the following headings, the applicable risks are laid out in what NZL considers to be the order of significance based on an assessment of the likelihood of the circumstance occurring balanced against the severity of the impact, with the most significant risks appearing first.

There is, however, no guarantee that the significance of different risks will not change, or other risks will not emerge. Although NZL may implement risk mitigation strategies to reduce the potential impact of some of the risks outlined below, any such strategies may not remove the risks altogether and may only reduce the impact of a risk if it materialised.

### **Land value risk:**

There is risk that the value of the Estate's future value is less than the purchase price, which would cause a write down in the value of the Estate in NZL's accounts. This could adversely affect NZL's compliance with its backing covenants. While NZL has completed due diligence on the Estate with this risk in the forefront, the market value of rural land is influenced by the profitability of the agricultural operations being undertaken on that land over time. It is also influenced by external factors that are outside of NZL's control such as:

- interest rates and availability of debt funding;
- returns from alternative investments (which results in capital exiting the sector if they are more attractive);
- extreme weather;
- demand for the type of agricultural land; and,
- the health of the New Zealand economy and region where the land is held.



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## Tenant financial risk:

NZL's income will be rental payments received from NZFL as the lessee of the Estate. NZFL may be exposed to the financial risks associated with operations on the land (for example, carbon price fluctuations, increases in operating costs, extreme weather conditions and tree health in the forests). If NZFL does not manage those risks or lacks the financial capacity to absorb those risks, NZFL may default on lease payments to NZL, which would mean that NZL would incur losses of contracted revenue and would require termination of the lease and seeking alternative tenants.

## Tenant operational risk:

Operational practices of tenants on the forestry land could damage the land and trees and decrease its value, which would cause a write down in the value of the Estate in NZL's accounts. This could adversely affect NZL's compliance with its backing covenants. For example, poor environmental or unsustainable tree and land maintenance practices could damage production and health of the trees and soil in the longer term.

## Requirements for Resolution

### **NZX Listing Rule 5.1.1(b) – Gross value of transaction above 50% of AMC**

NZX Listing Rule (**Rule**) 5.1.1(b) provides that, except with prior approval by an ordinary resolution, NZL, or any of its subsidiaries, may not enter into any transaction or series of transactions to acquire, sell, exchange, or otherwise dispose of assets of NZL which involves a gross value above 50% of the Average Market Capitalisation (**AMC**) of NZL.

The Acquisition constitutes a 'transaction' for the purposes of Rule 5.1.1(b) as NZL may wish to acquire 100% of the Estate, for the gross value of \$62.2 million. As at the date of entry into the Acquisition, NZL's AMC was approximately \$123 million, therefore, the Acquisition represents approximately 50.57% of NZL's AMC.

The Acquisition is not a "major transaction" for the purposes of section 129 of the Companies Act 1993 as the market value of NZL's gross assets is approximately \$289 million (as at 30 June 2022) of which the Acquisition value represents 21.5%, being considerably below the 50% major transaction threshold.

The Acquisition is not a related party transaction for the purposes of Rule 5.2.1.