

## Tammy Solomon

---

**From:** William Peet [William.Peet@ontrack.govt.nz]  
**Sent:** Tuesday, 18 December 2007 19:05  
**To:** djackson@tollnz.co.nz  
**Subject:** CONFIDENTIAL

David

Thank you for your letter this morning. As stated in our letter of 17 December, ONTRACK is not contemplating a process where valuation methodologies and assumptions will be negotiated and agreed. However to assist you in briefing your board we provide following additional information.

- We have determined that a DCF is the most suitable valuation methodology because it captures the TAC (including WACC and depreciation) that Toll will face under the NRAA. Toll NZ forecasts beyond 2011 were not provided to ONTRACK. As we stated in our earlier letter, ONTRACK has worked from Toll's 2008 to 2011 forecast. Revenue growth, non-TAC expense growth and depreciation growth have been assumed at 3% per annum beyond 2011. These extrapolations represent nominal growth. Capital expenditure has been set equal to the depreciation beyond 2011 (with the exception of depreciation on the ferry adjustment).
- ONTRACK has not received a balance sheet forecast for Toll NZ. ONTRACK has estimated net working capital to be \$3 million in 2008, growing at 3% per annum.
- As indicated in our earlier letter and discussed at our meeting, a minor adjustment for IT costs (\$5m) and an adjustment for ferry capital expenditure (\$100m in \$2007 incurred in 2013) have been made. These adjustments are ONTRACK's initial assessment of necessary Toll NZ expenditure.
- The Toll NZ (post-tax nominal) WACC has been calculated using the Brennan-Lally approach. The key inputs include:
  - Rf = 6.3%
  - MRP = 7.5%
  - Beta = 1.05
- ONTRACK's WACC was assumed to be 8.08% and assets were depreciated over 40 years.
- The GATX lease repurchase has been accounted for to the extent that the effect is incorporated in the cashflows provided by Toll. No adjustments were made for the Aratere or the Kaitaki.
- Land release proceeds, appropriate premia for control and other issues (including those identified in your 14 December letter) are not explicitly accounted for in the DCF valuation but were considered in determining the indicative offer range of between \$300m and \$350m.

I look forward to hearing from you after your meeting.

Regards

WP