ONTRACK
New Zealand Railways Corporation Rere Totika

10 December 2007

Directors, Toll Group (NZ) Limited
Level 17
HSBC Building
1 Queen St
AUCKLAND

Attention: David Jackson

Dear Directors

Non-binding Indicative Offer for Toll NZ of between $300m and $350m

Thank you for providing ONTRACK with the Toll NZ Strategic Plan and Budget ("Toll Strategic Plan"). Set out below is a non-binding indicative offer and the approach ONTRACK has used in determining the offer for all of the Toll NZ business.

In developing the offer, ONTRACK and its advisors have not sought to use information sources outside of the Toll Strategic Plan, various annual reports and the 2007 Grant Samuel independent appraisal report. The approach taken involved constructing cashflow forecasts based on two key scenarios. The first scenario assumes Toll's 2008 budgeted Track Access Charge ("TAC") of $56m, extrapolated at 3% per annum. The TAC profile under this scenario is as follows:

Scenario One: Extrapolated Toll Track Access Charges
(all in nominal $NZm)

YEAR	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
TAC	56	57	59	61	62	64	66	68	70	72	75

The second scenario assumes ONTRACK's estimate of the total charges under the National Rail Access Agreement ("NRAA") as it stands. The TAC profile under this scenario is as follows:

Scenario Two: ONTRACK estimated Track Access Charges (including WACC and depreciation)
(all in nominal $NZm)

YEAR	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
TAC	56	74	83	93	102	112	121	131	141	152	162

Key assumptions include:

- Revenue and expense growth of 3% p.a. after 2011.
- A Toll NZ Weighted Average Cost of Capital of 10.9%.
- Capital expenditure equals depreciation in each year other than, one-off costs of $100m for a new ferry in 2013 (in 2007 dollars), additional IT costs in 2008 (relatively small) and the subsequent ferry depreciation.

Level 4, Wellington Railway Station, Bunny Street, Wellington 6011
PO Box 593, Wellington 6140, New Zealand
Tel. +64 4 495 3000, Fax +64 4 495 9045

Using the Toll extrapolated TAC above, we derived an enterprise value of $705m for Toll NZ. Using the Grant Samuel net debt number of $204m, published in their August 2007 appraisal report, this equates to an equity value of $501m. Using the ONTRACK estimated TAC above, we derived an enterprise value of $202m for Toll NZ. Using the same net debt number, this equates to an equity value of around zero.

Our view is that Toll agreed (under the NRAA) to paying TAC (including WACC & depreciation) and to provide nationwide services. We believe, therefore, that ONTRACK's estimated NRAA charges should be incorporated into the Toll NZ cashflows. However, we suspect that zero is not a realistic offer for the equity given Toll could potentially liquidate Toll NZ which could result in a positive value being realised. We have not done any detailed work to assess the feasibility or value of this option but would expect to do so.

We propose a non-binding indicative offer of **$300m - $350m** for 100% of the equity in the Toll NZ business. Given the limited information that ONTRACK has had access to in formulating this indicative offer we appreciate that Toll may wish to see a different approach taken to valuing the Toll NZ business, with more detailed information employed. ONTRACK envisages a final offer to Toll only after due diligence has been undertaken and sufficient information has been reviewed to develop a post-acquisition plan. Any final offer will be subject to Government approval, and such an offer will be provisional until approved by Ministers.

The Minister has indicated to us that he expects to see substantial progress on discussions prior to Christmas. He has also indicated that he reserves the right to withdraw from discussions with Toll should negotiations not progress to his satisfaction.

We look forward to your response and to meeting at Cameron Partners' Wellington office at 4pm Tuesday 11 December 2007.

Kind Regards

William Peet
Chief Executive