Toll NZ Consolidated Limited
Level 17, HSBC House
1 Queen Street, Auckland
Private Bag 92 138
Auckland Mail Centre
New Zealand

Phone: +64 9 363 7333
Fax: +64 9 363 7335
djackson@tollnz.co.nz

14 December 2007

William Peet
Chief Executive Officer
Ontrack
P.O. Box 593
Wellington

Transmitted by email

Dear William

RE: Response to Letter of 10 December 2007 to the Directors of Toll NZ

Thank you for your letter of 10 December 2007 to the Directors of Toll Group providing a non-binding indicative offer for all of the Toll NZ business.

In this letter we raise Toll Group's concerns about basing a valuation for Toll NZ in the current circumstances on a discounted cash flow (DCF) approach, seek your views on alternative methodologies and raise a number of questions about the basis used for calculating the DCF values provided in your letter. We also provide suggestions on the future process so that negotiations are able to proceed in a timely and productive manner. To this effect, Toll Group has engaged Taylor Duignan Barry Ltd to assist us in the possible sale of the Toll NZ business.

With regard to the methodology used for the valuation, we question the appropriateness of discounted cash flow (DCF) as a basis for determining the value of Toll NZ, given the circumstances surrounding this potential transaction. In particular, unlike a normal market transaction, in this case:

- Toll Group is a reluctant seller of the business; and

- the Crown is both the potential purchaser of the business and a major supplier of services to the company. Most importantly, the price (the Track Access Charge or "TAC") for the services Ontrack provides remains unresolved. With the TAC unresolved, the value of Toll NZ's business using DCF is inherently indeterminate, as witnessed by the range of enterprise values for the business presented in your letter.

As foreshadowed in your letter, Toll Group would like to explore with you other possible approaches to valuing the business. As you will appreciate, there are a number of possible methodologies that could be used. Given the current circumstances, we would welcome your views on the use of the following methodologies:

- Market Value for the existing use (MVEU) of the assets in the business as described and detailed in the "Worley Parsons Toll Rail Fleet Desktop Valuation" provided to you previously as this would appear to be more reflective of the likely value to be derived by the Crown as acquirer;

- market-based information, in particular using the price at which shares in Toll NZ traded before the company was delisted earlier this year. As you know, Toll Group recently purchased the minorities' shares in Toll NZ at a price of $3 per share. The price was deemed to be a fair reflection of the value of Toll NZ by independent experts, Grant Samuels. An approach based on this recent market transaction would also need to consider what additional allowance should be made for a control premium given that 100% of the company is being sought by the Crown; and

- analysis based on the multiples that similar companies are valued at. In particular we would welcome your views on the use of multiples on which the shares of comparative companies trade at (Compco analysis) and the multiples arising from transactions where similar companies have been acquired in full or where control has passed or shared (Compaq analysis).

With regard to the DCF valuations presented in your letter, we would be grateful for further information on how the DCF valuations were arrived at. In particular, we would like to know:

i. how the Weighted Average Cost of Capital (WACC) for Toll NZ suggested in your letter was arrived at?

ii. what are the numerical values for the component parts of the suggested WACC: ie, the risk-free rate, the equity market risk premium, the assumed investor tax rate, the equity and asset betas and the borrowing margin?

iii. is the WACC pre or post-tax?

iv. is the WACC real (i.e., inflation adjusted) or nominal?

v. what allowance has been made in the DCF valuation model for the premium for control?

vi. what allowance was made in the net present value (NPV) analysis for the pending land release proceeds due to Toll?

vii. did Ontrack use the exact Depreciation and Capex numbers provided by Toll in its Business Plan for the years from 2008 to 2011? If not, what adjustments did you make? Was an allowance made for the GATX lease repurchase planned for 2009?

viii. what does the 3% growth used for revenue and costs growth post 2011 represent? Is it inflation or is it real growth? If it is real growth were the resulting cashflows inflation-adjusted in addition to that 3% growth. If so at what inflation rate?

ix. what exactly are the cashflows over the term of the model used to determine the NPV of the enterprise? What are the EBIT, EBITDA and Depreciation numbers used pre and post 2011?

x. what does the additional IT capital expenditure of $5million in 2008/09 relate to?

xi. what are the Ontrack proposed capital expenditures for the 2008 to 2018 years that are used as the basis for the TAC WACC and Depreciation charges going forward?

xii. what is Ontrack's WACC used to calculate the costs of capital on Ontrack's capital from 2008 onwards?

xiii. what depreciation rates were used from 2008 onwards for Ontrack's capital to calculate depreciation recovered?

xiv. what efficiency gains are used for Ontrack's costs given the large capital spend and how have these impacted on the forecast TAC?

xv. were any working capital amounts, or any other amounts of any type, used in the cashflows?

xvi. why was a new ferry assumed in 2013 when Toll NZ has already factored in the modification capital to allow the Arahura to continue on for several years with greater CV capacity and in a fully SOLAS compliant manner?

xvii. has the Aratere, which has been sold and leased back, been factored into the analysis?

xviii. what allowance has been made for the Kaitaki in the analysis?

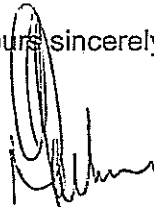
xix. what allowance, if any, has been made in the DCF for the value of the options that Toll NZ has as current owner of the business?

xx. what allowance, if any, has been made in the DCF for the value of the options that will accrue to the Crown as a potential future owner of the business? and

xxi. what is the assumed valuation date?

Toll Group remains committed to negotiating with the Crown in good faith and in this spirit offers the following proposals as a way to progress the process in a timely and effective fashion. Firstly, we consider it essential that the most appropriate methodology for valuing the assets be identified and the key assumptions that drive the Crown's assessment be understood. We therefore suggest that your and our advisors meet at your earliest convenience to progress the discussions on methodology and assumptions. Secondly, we invite you to submit a revised indicative bid, based on the most appropriate methodology and documented assumptions. Thereafter, and assuming the revised indicative bid is considered acceptable to Toll Group as a basis for proceeding, Toll Group would be happy to assist you to undertake due diligence so that you have sufficient information to make a final offer.

Yours sincerely,



David Jackson
Chief Executive Officer

cc: Grant Devonport
Phil Barry,
Taylor Duignan Barry Ltd