



Office of Hon Dr Michael Cullen

Deputy Prime Minister

Attorney-General

Minister of Finance

Minister in Charge of Treaty of Waitangi Negotiations

Leader of the House of Representatives

15 NOV 2007

Mr Cameron Moore
Chairman
ONTRACK
PO Box 593
WELLINGTON

Dear Cam

As you will be aware, Cabinet at its meeting on 23 October 2007 "Agreed that ONTRACK, in consultation with officials from the office of the Minister of Finance and Treasury, should proceed to initiate purchase negotiations with Toll under a mandate to be provided to its board from the Minister of Finance as responsible Minister."

This letter sets out formally ONTRACK's mandate in negotiating for the purchase of Toll NZ, together with reporting requirements back to shareholding Ministers.

Initial Mandate

Initially your mandate extends as far as obtaining a view on the valuation and scope of Toll NZ's business, and consequently your recommendation to shareholding Ministers of the limit on the share price offer that should be made to Toll Holdings. You will require shareholding Ministers' approval before making any formal offer to Toll Holdings.

As discussed to date I expect that you will be seeking to purchase all of Toll NZ (including the rail, ferry and trucking businesses and including all the customer contracts). The business would then be integrated into ONTRACK and you would be restructuring the company accordingly. I understand that it is likely that you may recommend selling the trucking business. Should this view alter during your initial investigation of valuation or subsequently once you have entered into negotiations, then I would expect you immediately to advise shareholding Ministers of the reasons for that changed view and seek approval for the changed scope of acquisition. Ministers may choose to on sell some of the assets acquired.

Ministers to Approve Offers

All formal offers to be put to Toll Holdings for the purchase of Toll NZ must first be approved by shareholding Ministers. This covers both the offer prices and the scope of acquisition, and includes all terms and conditions that may form part of the offer.

Shareholding Ministers can confirm that we will provide ONTRACK with the necessary capital to support you to undertake this transaction and acquisition. You will also need to present a business plan, including what support is necessary from the Crown, prior to Ministers making a final decision on acquisition. However, you should factor into your

timeframe that shareholding Ministers will need to obtain Cabinet agreement for the necessary appropriations and the final sums involved will need to be agreed by Ministers.

Reporting and Liaison

Throughout this process, I expect your officials to remain in regular contact with my office. I also expect that you will liaise closely with my office over all public communications associated with this prospective transaction. While ONTRACK should speak with regards to the progress of negotiations, it may be necessary on occasions for the Government to state its view publicly on the reasons for the transaction and other factors as they arise. In all instances therefore, it will be essential for these communications to be carefully considered, and there must be no surprises on either side.

More formally, shareholding Ministers will require a report at least monthly once a prospective agreement is on the table. For the avoidance of doubt, you should make it clear to Toll Holdings that any final agreement requires the Government's approval, and that therefore all offers are provisional until approved by Ministers.

I look forward confidently to a successful completion of the transaction as soon as possible. I wish you well in your endeavour.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Cullen', written in a cursive style.

Hon Dr Michael Cullen
Minister of Finance

cc Secretary to the Treasury
William Peet, Chief Executive, ONTRACK