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David Jackson
Chief Executive
Toll NZ Consolidated Limited
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AUCKLAND

Dear David

Thank you for the presentation that you and your team gave to us on Thursday.

As a start, I wanted to reconfirm that we remain very interested in purchase, though only at a reasonable price.

Your presentation outlined two approaches to valuation which equate to a price for equity of just under $1 billion. While I appreciate the comment made at the meeting that we are in a negotiation, $1 billion is simply not a credible price, not least because the earnings under any reasonable scenario only support a value for equity between zero and $550 million. We are assuming that this is not Toll's final position. If it is, I suspect that there is little point in these discussions.

Notwithstanding our previous comments about the Grant Samuel report, I have also reviewed this and the Target Company Statement of 1 August 2007 and note the somewhat selective quotations contained in your presentation. In particular, the report notes:

- "Currently Toll NZ is operating on an interim access and pricing arrangement with the Crown. If no final agreement is reached with the Crown and the National Rail Access Agreement is enforced on its current terms, the independent directors consider significant shareholder value would be eroded; and ... Toll NZ has historically produced poor cash flows and a low return on capital in the core rail business, and in recent years has not paid a dividend. Under the current track access regime this would be unlikely to change." (p3)

- "The valuation of Toll NZ is appropriate for the acquisition of the company as a whole and accordingly incorporates a premium for control." (p20)

I cannot see how you can sustain your arguments around value, especially for assets in their existing use, and that a premium for control should then be added to the GS valuation.

As I said at the meeting, for this purchase to be concluded it will require both sides to be frank with each other. That is why we gave you direct feedback on your valuation approaches and the $1 billion asking price. While I respect you might find it concerning (as indicated in your email to me on Friday), it is essential that we get to the core issues in the short time left available for us.

I was pleased to hear your confirmation that you are happy with the process and timetable outlined in my letter just prior to Christmas. It was also useful to get confirmation yesterday on your position regarding a modified Toll Tranz Link (TTL). In the interests of keeping things moving, I suggest that we focus our joint attention on the nature and operations of the businesses we would each be responsible for in the event of a sale, with a view to reengaging on price after that.

Accordingly I propose that:

- The meeting this Thursday should aim to get underway at 8:30am – I will be on the first flight out of Wellington and suggest we meet in Cameron Partners' office in the Vero Building. As discussed, it would be useful to receive information on:
  - » Financials, P&Ls, balance sheets that separate out the operations, costs, revenues and assets of TranzLink from Toll NZ consolidated (including details on intercompany revenues / shared assets / facilities etc).
  - » Material explaining the criteria for determining whether the customer interface is at TTL or elsewhere in Toll.
  - » Material setting out how TTL's purchases from Toll and third parties are determined when TTL 'owns' the customer. Similarly for a situation where Toll 'owns' the customer but the relationship is not with TTL.
  - » An explanation of differences (if any) between TTL's relationship with other businesses elsewhere in Toll and those of third party relationships with Toll.
  - » An explanation of any contracts between TTL and other parts of Toll (including property).
  - » Thoughts on how the TTL relationship might be structured in the future if ownership separation is effected.
- We would like to get a similar level of detail on the remainder of the business (the part proposed to be sold). I recognise that it will be difficult to provide all of it by Thursday, but I would like an early indication from you as to the timeframe in which it can be provided.

In the interests of keeping to the timetable, I suspect that it would be preferable for both of us if the information was released on a staged basis as it is prepared.

- We start to draft up a terms sheet which can be used as a basis for an Agreement for Sale and Purchase which will outline where cashflows, assets and operations would sit which would be subject to due diligence confirming that the forecasts provided by Toll are credible. I have instructed our team to prepare a first outline of this for presentation to you on Thursday.
- Having the split more clearly understood will assist us with valuing the two businesses. To this end, I have asked Murdo Beattie to contact Phil Barry to further discuss valuation concepts and issues. We will then expect to be in a position to table a best and final offer which takes all factors into account.
- As Wellington land release was a significant item in your valuation it would be useful to receive your project plan in accordance with the land release process as soon as possible, including operational plans and estimates of relocation costs. To maintain momentum, I think it would be useful if you could share the current state of your plans even if they are still in draft form.

We look forward to seeing you on Thursday.

Yours sincerely

William Peet
Chief Executive