

28 March 2003

Mr Stephen Stanley
Director - Strategy
Toll Holdings Limited
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Melbourne
Victoria 3004
AUSTRALIA

Dear Stephen

Further to our telephone conversation, the attachment to this letter outlines the broad parameters of a possible transaction involving the Crown acquiring Tranz Rail's track and related infrastructure following a successful takeover offer of Tranz Rail made by a third party.

At this stage, our objective is to evaluate whether this is a feasible option for the Crown. No decision has been made by the Government to pursue this or any other transaction in relation to Tranz Rail.

As discussed previously, the Government's objective is to ensure that New Zealand's rail infrastructure is maintained and developed for the benefit of the whole economy. One option is for the Crown to acquire the rail infrastructure through a commercially orientated Crown-owned entity that would then be responsible for maintenance and capital expenditure on the rail network.

Under such a scenario, a third party would own and operate the rail freight, passenger, ferry and other operations of Tranz Rail. Separation of the ownership of the rail infrastructure from the company's other operating assets would occur after the third party had acquired 100% ownership of Tranz Rail through a takeover offer.

The Crown's objective would be to agree the substantive terms of the infrastructure transaction and related arrangements pre offer, with only minor details to be finalised after the takeover. The terms of the agreement would be confidential, but the broad nature of the relationship between the parties would need to be disclosed in the takeover offer.

Could you please advise whether Toll Holdings is interested in such an arrangement. We would be happy to discuss it further with you. If it appears that a mutually acceptable proposal can be agreed, Treasury would report back to the Government. If the Government wishes to proceed with the proposal, we envisage that the parties would then proceed to finalise an agreement.

We look forward to hearing from you.

Yours sincerely

FIRST NZ CAPITAL GROUP LIMITED

Tim Robinson
Director
Investment Banking