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Wayne Walden  
Chairman

17 July 2003

Rt Hon Michael Cullen  
Minister of Finance  
Parliament House  
WELLINGTON

*Tranz's advice?*  
↙  
*(I believe it should be no!)*

Dear Michael

### **Heads of Agreement with Toll**

The Tranz Rail board have now had the opportunity to review and obtain advice on the revised heads of agreement between the Crown and Toll. It is clear from our advice that the arrangement the Crown has reached with Toll is significantly superior to the deal we signed with you on 6 June. Our advice is that the difference could be as much as 55 cents per share. As it stands today, if Toll is successful with their current offer for 90% of the company, all of that value will accrue to them rather than to the existing New Zealand shareholders of Tranz Rail. We have had a number of shareholders expressing dissatisfaction with this outcome.

The purpose of this letter, therefore, is to formally request that the arrangement you have reached with Toll be also extended to the Company and its current shareholders.

That deal is very similar to the one the Tranz Rail team proposed at the beginning of our negotiation and seems to us a more sensible platform for ensuring the ongoing viability of rail than the arrangement we eventually reached. It is also a logical conclusion to the discussions between us over the last 18 months which were intended to clarify how Tranz Rail could support the Government's Land Transport Strategy and how to address inequities in the road-rail "level playing field".

During this time the company, and by extension its shareholders, have taken the following actions:

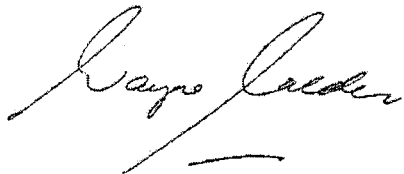
- Continued to operate the Southerner long-distance passenger service at a loss for four months to enable the local communities and Ministry of Economic Development to conduct a full viability study.
- Worked with regional councils to submit projects to Transfund's ATR process which would maintain or extend the rail network. After 15 months, decisions have yet to be made on any of these projects.

- Invested money in the Napier-Gisborne route to increase freight services and maintain access for passenger charters until a long-term solution for this route can be achieved. The company will need to make hard decisions in this regard very shortly.
- Kept open other marginal routes to maintain the current scope of the network.
- Despite the clear intention of exiting passenger services, Tranz Rail has agreed to assist the Auckland region by continuing to operate Tranz Metro Auckland for up to 2 more years.
- Actively supported the Ministry of Transport's 'Surface Transport Costs' study.
- Held on-going discussions with the Crown regarding rail's place in the Land Transport Strategy.

The Board appreciates the assistance the Crown has provided to us in dealing with our recent liquidity situation and its interest in seeing viable rail continue in New Zealand. However, we are concerned that Tranz Rail's current New Zealand shareholders, who have been steadfast in their support of the Land Transport Strategy during a turbulent time for the company, will not be able to benefit from the implementation of that strategy.

We recognise the obligations you have under your deal with Toll in terms of dealing with other parties. That being the case, we are simply looking for an understanding of how our current arrangement will be amended should the Toll offer be terminated for any reason. Our team stands ready to work with your team to move this forward.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Wayne Walden', with a horizontal line underneath.

Wayne Walden  
**Chairman**