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Auckland Mall Centre
New Zealand

Michael J Beard
Managing Director

7 March 2003

Hon Dr Michael Cullen
Minister of Finance
Parliament Buildings
WELLINGTON

Dear Michael

The release of the New Zealand Transport Strategy and Land Transport Management Bill late last year provided an opportunity for Tranz Rail to discuss with the Crown the manner in which the company could both meet its commercial goals and contribute to the national good.

There were informal discussions between your officials and my managers that we believed were the precursor to more formal and substantive discussions. Several months have passed and, thus far, those discussions have not advanced significantly.

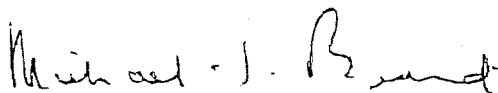
As you know, we have both had to deal with a good deal of rumour and speculation during this time and I am receiving increasing pressure from shareholders to clarify our strategy in relation to the company's future role in New Zealand's land transport industry. In addition, we are entering our business planning cycle and need some assurance that we have a basis for progressing the issue.

I believe that there is an opportunity for Tranz Rail and the Crown to work co-operatively in reaching our mutual goal of a vibrant and vital rail system in New Zealand. In that regard, we are prepared to make commitments regarding additional investment in key assets and services as part of any arrangements we may jointly enter.

It is clear to me that the next step must be substantive discussions between us to explore opportunities and determine where we can effectively work together. I am grateful for the assistance and input of your officials thus far in providing a foundation for progress. But I am conscious that if we are to continue to progress, we need to engage more formally with the Government

We would appreciate your urgent response as to whether the Crown would like to move forward with these discussions. I am available to meet with you at your convenience.

Yours sincerely



Michael J Beard
Managing Director