

LA-7-1-1

6 June 2003

Michael Beard
Managing Director
Tranz Rail Ltd
Private Bag 92138
Auckland Mail Centre
AUCKLAND

Dear Michael

HEADS OF AGREEMENT

Attached to this fax is the offer of the Crown in the form of the Heads of Agreement signed by the Minister of Finance together with a covering letter from the Minister of Finance to the Chairman of Tranz Rail Ltd.

The changes to the last draft which was emailed on 5 June to Russell McVeagh are

- References to signing of HOA to 6 June 2003
- clause 3.3 (c) (i) and (ii) repayment date put back to 30 June 2004.
- timetable to match up with the above

The offer remains open for acceptance until 1.00pm today and if accepted should be signed by Tranz Rail Holdings Ltd and Tranz Rail Limited and a signed copy faxed to us by 2.00pm.

In addition we will require a fax of the following:

- A copy of the General Security Deed with the cover page signed for certification
- The undertaking (referred to in Schedule 3) signed by each of the Tranz Rail Holdings directors
- Signed copies of the undertakings agreed under clause 4.1 (g) of the HOA by Russell McVeagh, Tranz Rail Holdings and its directors.

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Please fax to (04) 472 6281.

Yours sincerely

Ivan Kwok
Treasury Solicitor



Office of Hon Dr Michael Cullen

Deputy Prime Minister

Minister of Finance

Minister of Revenue

Leader of the House of Representatives

Wayne Walden
Chairman
Tranz Rail Limited
Private Bag 92 138
AUCKLAND

Dear Wayne

Please find attached a signed copy of the Heads of Agreement that my officials have been negotiating with your staff.

I believe the proposed deal addresses Tranz Rail's short-term liquidity position, as raised in Michael Beard's letter of 7 May, as well as the Government's public policy objectives of having an economically viable rail network that serves the public interest.

I hope you can commend it to your shareholders as being in the best long term interests of the company.

I would like to take this opportunity to thank your staff for the effort put into negotiations over the last couple of weeks. I appreciate the tight time frames they have been forced to work under.

It would be in both our interests to make an announcement tomorrow, on Friday 6 June. This would provide some certainty and minimise the impact of the inevitable speculation and rumour that has arisen in recent days.

I will have my officials make contact with your staff to ensure that arrangements are in place for this and that our public statements are aligned.

Yours sincerely

Hon Dr Michael Cullen
Minister of Finance