

File No: CFO/43/1/1
23 October 2003

Mr Paul Little
Managing Director
Toll Holdings Ltd
Royal Domain Centre
Level 8, 380 St Kilda Road
Melbourne, Victoria 3004
Australia

P O Box 11646
142 Wakefield Street
Wellington
New Zealand
T 04 384 5708
F 04 384 5023
W www.gw.govt.nz

Greater Wellington is the promotional
name of the Wellington Regional Council

Dear Paul

Future of Tranz Metro (Wellington)

Thank you for making the time available last week to meet with Barry Harris and myself during our visit to Melbourne.

While we appreciate that Tranz Metro (Wellington) may not be a pressing issue for you at present, we were greatly encouraged by your desire to see a good outcome for the passenger rail services in Wellington.

As we discussed at our meeting, we too are keen to facilitate a solution which results in a smooth handover of the Tranz Metro (Wellington) operation to a new owner committed to growing passenger services over the long term. However, equally important to us is that any sale is based on the appropriate level of public subsidy, going forward. The key imperative for us is increasing our level of confidence around the financial arrangements in place with Tranz Rail.

As explained to you at the meeting, Tranz Rail have consistently refused to provide us with any meaningful information about the cost structure of delivering the Tranz Metro (Wellington) services. As a result, we have little assurance that we are currently receiving value for money. In fact, we strongly suspect that we are not and we have therefore publicly advised interested parties that our current level of subsidy should not be assumed in the future. This is likely to result in a significant discounting of Council's subsidy by interested buyers of Tranz Metro (Wellington).

Given the circularity of our Council's subsidy and the value of the Tranz Metro (Wellington) business, we consider that we need a circuit breaker to break the circularity. In our view the circuit breaker is Toll Holdings/Greater Wellington Regional Council agreeing on what is a reasonable cost structure for Tranz Metro (Wellington) going forward, taking into account the fact that Track Co will soon be established (and will set track access fees for passenger services) and the allocation of a

share of Tranz Rail's overheads will no longer be relevant in future (a zero based approach will need to be taken to looking at support costs under a range of possible ownership options).

If we can get into a position of a high level of confidence around the real costs of Tranz Metro (Wellington) now and in the future we will then be able to clearly signal our long term subsidy projections. This in turn will create the underpinning of revenue so important for you to ensure you receive fair value for the sale of the Tranz Metro (Wellington) business. In effect, it should create a situation as if Tranz Rail had a long term contract in place with the Council, as opposed to the monthly rollover at present.

We have taken the liberty of attaching a summary of the sort of information we are seeking from you, in the hope that it will provide an important step forward in trying to find a sensible solution for all parties. We have deliberately requested a comprehensive range of information but appreciate that it may not all be readily available at this time.

I trust that you will look favourably on this request as a means of achieving a win/win solution.

Thank you.

Yours sincerely

Greg Schollum
Chief Financial Officer

Direct dial: 04 802 0308
greg.schollum@gw.govt.nz

Request for Information: Tranz Metro Wellington

Definitions:

TMH: Tranz Rail Holdings Limited
TMW: Tranz Metro Wellington

The following information is requested by the Greater Wellington Regional Council in relation to TMW:

Organisational

- TMW Organisational chart (current)
- Current list of employees and a summary of their terms of employment (including benefits such as superannuation contributions, fringe benefits and current redundancy and leave entitlements)
- Staff turnover and other key personnel statistics for the last three years (including the number of full time equivalent (FTE) employees).
- Copies of any current Collective Employment Contracts or Agreements relating to TMW employees.

Operational

For the last three years:

- Gross tonne kms, train kms and all other key performance indicators.
- Any independent reports assessing the operations of TMW.
- Details on the capacity of the TMW rolling stock/business at present (and any constraints on achieving that capacity).

Financial Performance

- Statements of Financial Performance for TMW for the last five years, together with the following information for the last three years and year to date:

Revenue

- Passenger numbers, by month, by line.
- Passenger fare revenue, by month, by line.
- Other sources of revenue excluding GWRC subsidy (by major type and details of how this revenue is obtained and its key terms) e.g. concessions, commission sales, advertising etc.

Expenses

- A detailed breakdown of the operating expenses of TMW (including the following information) for the year to date and for the past three years:
 - Personnel costs, by function.
 - Maintenance costs and copies of all outsource contracts for track and other maintenance services.
 - Cleaning costs and copies of all outsourcing contracts;
 - Electricity and fuel costs, including copies of all contracts for supply of electricity and fuel. Details of any on-charging arrangements from TRH.
 - Lease costs – operating and financial and copies of all lease contracts.
 - Depreciation charges and the bases for calculation of depreciation.
 - Advertising and promotion costs.
 - Track access charges from TRH – how these have been determined and how allocated.
 - Overhead costs, by function.
 - The level of fixed vs. variable cost in the above, and where costs are variable, the basis on which the costs vary.

Shared/Allocated Costs

- Identify all shared/allocated costs (including those identified above), together with the source of the underlying expenditure and the method of allocating the cost.

Forecasts

- Current year budget and financial performance year to date.
- Details of all forecasts prepared by TMW or TRH for TMW.

Track Access

Details of TMW's expectations as to future track access terms between TMW and TrackCo, together with TRH's position in relation to negotiations with TrackCo with respect to TMW track access and comparison to freight track access terms.

Financial Position (particularly Assets)

Statements of Financial Position for TMW as at the last two financial year ends, together with the latest Financial Position and the following information:

Rolling Stock

- Details of all rolling stock (cost, date of purchase, improvements, book value, estimated useful life remaining).
- Any management or independent reports on the condition of the rolling stock.
- Details of any plant not used or obsolete.
- Details of repairs and maintenance costs for rolling stock for last 5 years.
- Details of expected future requirements.

Land and Buildings

- Details of all land owned by TMW or TRH and which is used by TMW, including any stations and carparks
- Details of all buildings owned by TMW or TRH and which are used by TMW.
- Details of any licences granted by TRH/TMW over any land and/or buildings.

Leases

- Details of all leases of land and buildings by TMW (or TRH if used by TMW), including any stations and carparks. Copies of all lease agreements please.
- Details of all leases as they relate to plant and equipment used by TMW.

Other Matters

- Details of accounting policies.
- Quantum and time period of all material contingent liabilities and commitments under contracts.
- Description of all shared services and assets (e.g. signalling, rail car cleaning, back room accounting functions etc).